

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|---|-----------------------------------|---|--------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name CITY OF HANCOCK | County HOUGHTON |
| Fiscal Year End JUNE 30, 2007 | Opinion Date DECEMBER 12, 2007 | Date Audit Report Submitted to State DECEMBER 20, 2007 | |

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|-------------------------------------|--|-------------|--------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input checked="" type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | | |
| Other (Describe) | <input checked="" type="checkbox"/> | FEDERAL AWARDS - SINGLE AUDIT | | |
| Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC | | Telephone Number 906-482-8601 | | |
| Street Address 310 SHELLEN AVENUE | | City HOUGHTON | State MI | Zip 49931 |
| Authorizing CPA Signature  | | Printed Name BRUCE A. RUKKILA, CPA | | License Number 263B12 |

CITY OF HANCOCK
HOUGHTON COUNTY, MICHIGAN

FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION

June 30, 2007

CITY OF HANCOCK

JUNE 30, 2007

ADMINISTRATION

| | |
|-----------------------|----------------|
| City Manager | Glenn Anderson |
| Clerk/Treasurer | Karen Haischer |

BOARD MEMBERS

| | |
|---------------------|------------------|
| Mayor | Barry Givens |
| Mayor Pro Tem | William Laitila |
| Ward III | Sarah Baratono |
| At Large | Lisa McKenzie |
| At Large | Thomas Gemignani |
| At Large | James Hainault |
| At Large | Ted Belej |

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hancock's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2007 on our consideration of the City of Hancock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 8 through 16 and 47 through 50, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hancock's basic financial statements. The additional information on pages 52 to 88 is presented for purposes of additional analysis and is not a required part of the basic financial statement. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Hancock. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkala, CPA, PC

Certified Public Accountants

December 12, 2007

This section of the City of Hancock's annual Financial Report presents the Management Discussion and Analysis of the City's financial activities during the fiscal year ended June 30, 2007. The analysis focuses on the City's financial performance as a whole. It is intended to be read as part of the City's financial statements, which immediately follow this section.

Financial Highlights

- The assets of the City of Hancock exceeded its liabilities at the close of the most recent fiscal year by \$4,243,959 (net assets). Of this amount, \$2,768,261 (unreserved net assets) may be used to meet the government's ongoing obligations.
- The City of Hancock's total net assets decreased by \$115,787. This was the result of a increase in net assets of governmental activities of \$19,728 along with a decrease in the assets of business-type activities of \$135,515.
- The City of Hancock had charges for services of \$1,629,020 in governmental activities and \$1,200,313 for business-type activities and expenses totaling \$6,190,179 during the year ended June 30, 2007.
- At the close of the fiscal year, the City of Hancock's governmental funds reported a combined ending fund balance of \$2,241,292. This is an increase of \$19,728.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$490,704 or 26 percent of total general fund expenditures and operating transfers to other funds in comparison to \$445,437 at the close of the prior year, an increase of \$45,287.
- The City of Hancock expended \$507,962 in federal awards requiring the City undergo a Single Audit. The schedule of federal expenditure awards is located on page 93. A majority of the federal expenditures was related to the Rental Rehabilitation Grant.
- During the fiscal year the City was able to eliminate a deficit totaling \$4,723 that was reported in the prior year for the Parking Meter Fund. The City had a fund balance as of June 30, 2007 in the Parking Meter Fund in the amount of \$2,895.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the City is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

Overview of the Financial Statements - Continued

The City's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the City's net assets is one way to determine if the financial position of the City is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the City.

There are two kinds of activities in the Statement of Net Assets and the Statement of Activities:

Governmental Activities - Most of the City's basic services are reported here, including general administration, fire, public works, and parks and recreation. These activities are financed primarily by property taxes, intergovernmental revenues, and charges for services.

Major Funds: Under GASB Statement 34, the audit focus has shifted from governmental type funds to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the City of Hancock the General Fund, Major Street Fund, Local Street Fund, and CDBG Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller, less active funds. Detailed information about non-major funds can be found after the notes to the financial statements.

Business-Type Activities - Business-type activities represent those activities for which the City charges fees to customers to cover the cost of services. The City's Sewer, Water, Transit and Parking Meter Funds are business-type funds.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the City's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information.
- Other supplementary information provides detailed information about the General Fund, Special Revenue Funds, and Proprietary Funds.

Governmental Funds - The City's basic services are mainly reported in this type of fund, which concentrates on how money goes into and out of those funds and the balances left at year end that are available for spending. Modified accrual accounting is the reporting method used for these funds. These statements provide a short-term view of the City's general governmental operations and the basic services it provides in detail. Information in these statements help determine whether there are more or fewer financial resources that can be spent in the future to finance the City's programs.

Governmental funds are essentially the same as the governmental activities with the exception that internal services are included in governmental activities but not as governmental funds. Governmental funds use a modified accrual basis of accounting and focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources.

Overview of the Financial Statements - Continued

In governmental funds, capital outlay and debt principal are reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and depreciation is not recorded. The Balance Sheet for governmental funds does not include any capital assets or long-term debt.

Proprietary Funds - Proprietary funds use a full accrual method of accounting for both government-wide statements and fund level statements. There are two types of proprietary funds.

Enterprise funds are used to report business like activities. In general, these funds charge a fee for their services. The City uses enterprise funds for transit, parking meter, water and sewer. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds. Water and Sewer funds qualify as major funds.

Internal service funds provide services to other City activities or functions. Internal service funds facilitate cost allocation of centralized services such as vehicle and equipment maintenance. The Employee Benefit fund and the Motor Vehicle Funds are the only internal service funds.

Component Units - The City has one discretely presented component included in this report, the Downtown Development Authority (DDA). Although legally separate, this component unit is important because the City is financially accountable for the DDA. This component unit is shown in a separate column. The City also has a blended component unit, the City of Hancock Building Authority. The Authority is reported as if it were part of the City's operations because its primary purpose is that of a financing vehicle for the construction of City facilities. Further information on the component units are found in Note A of the financial statements.

Summary of Net Assets

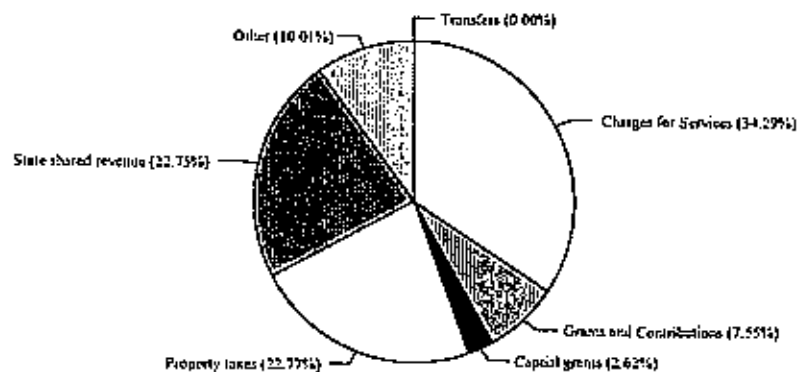
| | Governmental Activities | Business-type Activities |
|--|----------------------------|-----------------------------|
| Assets | | |
| Current and other assets | \$ 1,431,481 | \$ 48,695 |
| Capital assets- Net of accumulated depreciation | 3,255,496 | 3,635,700 |
| Total Assets | \$ 4,686,977 | \$ 3,684,395 |
| Liabilities | | |
| Current liabilities | \$ 166,769 | \$ 49,166 |
| Long-term liabilities | 2,278,916 | 1,632,562 |
| Total Liabilities | 2,445,685 | 1,681,728 |
| Net Assets | | |
| Invested in property and equipment - net of related debt | 3,089,343 | 0 |
| Contributed capital | 0 | 0 |
| Restricted for debt | (2,116,537) | 0 |
| Reserved | 159,876 | 343,016 |
| Unrestricted | 1,108,610 | 1,659,651 |
| Total Net Assets | 2,241,292 | 2,002,667 |
| Total Liabilities and Net Assets | \$ 4,686,977 | \$ 3,684,395 |

Results of Operations

| | Governmental Activities | Business-type Activities |
|-----------------------------------|----------------------------|-----------------------------|
| <u>Revenues</u> | | |
| Program Revenue: | | |
| Charges for services | \$ 1,629,020 | \$ 1,200,313 |
| Grants and contributions | 358,812 | 79,265 |
| Capital grants and contributions | 124,264 | 0 |
| General Revenue: | | |
| Property taxes | 1,081,879 | 0 |
| State shared revenue | 1,080,851 | 0 |
| Other | 475,482 | 44,506 |
| Transfers | 0 | 89,312 |
| Total Revenue | <u>4,750,308</u> | <u>1,413,396</u> |
| <u>Functions/Program Expenses</u> | | |
| General government | 1,455,711 | 0 |
| Public safety | 639,164 | 0 |
| Public works | 1,950,351 | 1,548,911 |
| Sanitation | 278,372 | 0 |
| Recreation and culture | 134,796 | 0 |
| Interest on long-term debt | 25,291 | 0 |
| Other | 157,583 | 0 |
| Transfers | 89,312 | 0 |
| Total Expenses | <u>4,730,580</u> | <u>1,548,911</u> |
| Change in Net Assets | 19,728 | (135,515) |
| Net Assets - Beginning | 2,221,564 | 2,138,182 |
| Net Assets - Ending | <u>\$ 2,241,292</u> | <u>\$ 2,002,667</u> |

The following two charts highlight the City's governmental activities by revenues and expenses.

Revenues-Governmental Activities

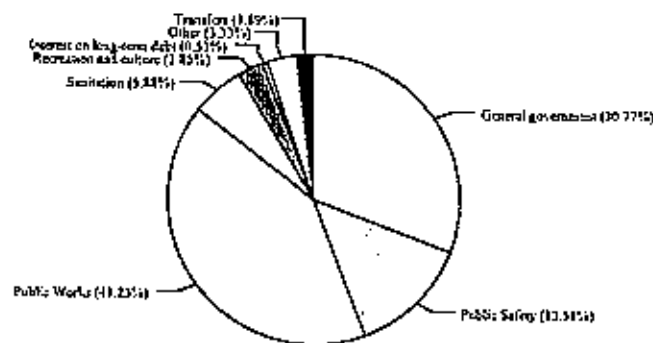


The most significant portions of the revenues for all governmental activities of the City comes from property taxes. The City's operating millage was 14.429.

The state revenue represents state shared revenue and funds for the Major and Local Street Funds from the Michigan Transportation Fund.

The charges are a combination of charges from the internal service funds for employee benefits and the use of the motor vehicles, as well as garbage collection revenue and campground revenue.

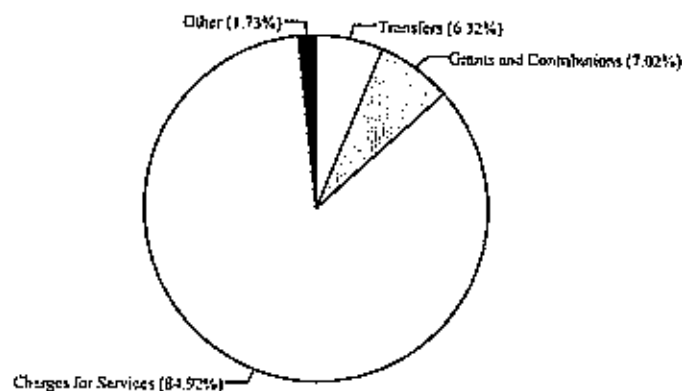
Expenses-Governmental Activities



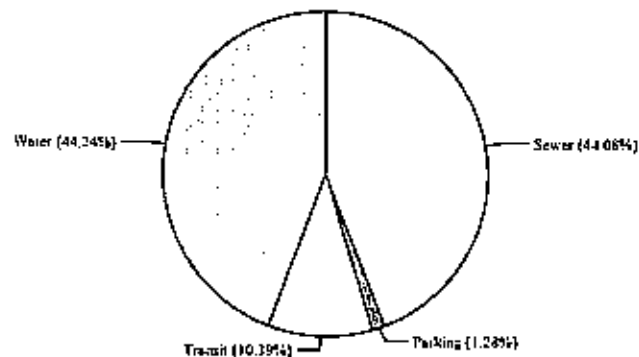
The general area expenses represent City hall activities. The major, local and motor vehicle expenses are included in the public works area. Police and fire expenses are included in public safety.

The following two charts highlight the City's business-type activities by revenues and expenses.

Revenues-Business-Type Activities



Expenditures-Business-Type Activities



Significant Transactions and Changes in Individual Funds

A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

GENERAL FUND

| | Current Year | Prior Year | Change |
|------------------------|--------------|--------------|--------------|
| Revenues/Transfers | \$ 1,961,001 | \$ 2,510,902 | \$ (549,901) |
| Expenditures/Transfers | \$ 1,917,717 | \$ 2,547,152 | \$ (629,435) |
| Fund Balance | \$ 551,388 | \$ 508,104 | \$ 43,284 |

The General Fund saw an decrease in revenues and expenditures of \$549,901 and \$632,435, respectfully. This represents the prior year's USDA Community Facilities Loan that was for the purchase of two fire trucks.

SPECIAL REVENUE FUNDS

| | Current Year | Prior Year | Change |
|-----------------------------------|--------------|------------|-------------|
| Major Street Fund: | | | |
| Revenues/Transfers | \$ 562,598 | \$ 508,286 | \$ 54,312 |
| Expenditures/Transfers | \$ 648,789 | \$ 465,305 | \$ 183,484 |
| Fund Balance (Deficit) | \$ (62,475) | \$ 23,716 | \$ (86,191) |
| Local Street Fund: | | | |
| Revenues/Transfers | \$ 345,507 | \$ 334,729 | \$ 10,778 |
| Expenditures/Transfers | \$ 414,262 | \$ 325,499 | \$ 88,763 |
| Fund Balance (Deficit) | \$ (68,755) | \$ 0 | \$ (68,755) |
| CDBG Fund: | | | |
| Revenues/Transfers | \$ 476,269 | \$ 130,617 | \$ 345,652 |
| Expenditures/Transfers | \$ 485,740 | \$ 35,270 | \$ 450,470 |
| Fund Balance | \$ 86,316 | \$ 95,787 | \$ (9,471) |
| Elevation Street TIF Fund: | | | |
| Revenues/Transfers | \$ 23,898 | \$ 20,794 | \$ 3,104 |
| Expenditures/Transfers | \$ 60 | \$ 14,316 | \$ (14,256) |
| Fund Balance | \$ 89,834 | \$ 65,996 | \$ 23,838 |

Significant Transactions and Changes in Individual Funds (Continued)

Major Street Fund - The increase in revenues/transfers of \$54,312 are from the combination of a grant received and a decrease in state revenues and transfers. Expenses/transfers increased by \$183,484 due to expenses related to the grant received and minor increases in most other areas.

Local Street Fund - The increase in revenues/transfers are from minor increases in all revenue areas. The increase in expenses are from increases in construction and maintenance costs.

CDBG Fund - The CDBG fund had a significant increase in both revenues and expenditures due to a large grant received in during the year that was used for construction.

ENTERPRISE FUNDS

| | Current Year | Prior Year | Change |
|-----------------------------|--------------|--------------|-------------|
| Parking Meter Fund | | | |
| Revenues/Transfers | \$ 27,495 | \$ 18,970 | \$ 8,525 |
| Expenditures/Transfers | \$ 19,877 | \$ 20,408 | \$ (531) |
| Retained Earnings (Deficit) | \$ 2,895 | \$ (4,723) | \$ 7,618 |
| Transit Fund | | | |
| Revenues/Transfers | \$ 166,999 | \$ 127,855 | \$ 39,144 |
| Expenditures/Transfers | \$ 160,929 | \$ 171,595 | \$ (10,666) |
| Retained Earnings (Deficit) | \$ (5,317) | \$ (11,387) | \$ 6,070 |
| Sewer Fund | | | |
| Revenues/Transfers | \$ 627,193 | \$ 633,683 | \$ (6,490) |
| Expenditures/Transfers | \$ 682,811 | \$ 662,164 | \$ 20,647 |
| Retained Earnings | \$ 1,383,828 | \$ 1,439,446 | \$ (55,618) |
| Water Fund | | | |
| Revenues/Transfers | \$ 591,709 | \$ 568,160 | \$ 23,549 |
| Expenditures/Transfers | \$ 685,294 | \$ 694,042 | \$ (8,748) |
| Retained Earnings | \$ 621,261 | \$ 714,846 | \$ (93,585) |

Parking Meter Fund - The Parking Meter Fund showed an increase in parking meter fines.

Transit Fund - The Transit Fund had increases in revenues from state grants, contributions, fare box, and bus passes. The major increase being the returned contributions from Portage Hospital and Lakeview Manor. Expenditures showed decreases overall.

Sewer Fund - The Sewer Fund's expenditures increased by \$20,647 this fiscal year. A significant portion of this can be attributed to the \$41,000 increase in billing from Portage Lake Water and Sewer Authority. Other areas of expenditures such as salaries, fringe benefits, supplies, and equipment rental showed decreases.

Water Fund - The Water Funds revenues increased by \$23,549 from water billing and other charges.

DEBT SERVICE (BUILDING AUTHORITY)

| | Current Year | Prior Year | Change |
|------------------------|--------------|------------|------------|
| Revenues/Transfers | \$ 97,229 | \$ 98,722 | \$ (1,493) |
| Expenditures/Transfers | \$ 97,218 | \$ 98,705 | \$ (1,487) |
| Fund Balance | \$ 1,760 | \$ 1,749 | \$ 11 |

Significant Transactions and Changes in Individual Funds (Continued)

RESIDENTIAL CAPITAL PROJECTS

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|------------------------|---------------------|-------------------|---------------|
| Revenues/Transfers | \$ 33,415 | \$ 50,265 | \$ (16,850) |
| Expenditures/Transfers | \$ 64,631 | \$ 36,739 | \$ 27,892 |
| Fund Balance | \$ 1,986 | \$ 33,202 | \$ (31,216) |

Revenue from lot sales decreased from prior year. Expenditures change represent a combination of increases in equipment rental and supplies and a decrease in contracted services.

INTERNAL SERVICE FUNDS

Employee Benefits Fund - Revenue decreased due to fewer charges to other governmental units. Expenses decreased from a combination of decreases in insurance and sick pay and increases in retirement.

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|------------------------|---------------------|-------------------|---------------|
| Revenues/Transfers | \$ 792,196 | \$ 862,068 | \$ (69,872) |
| Expenditures/Transfers | \$ 767,543 | \$ 829,402 | \$ (61,859) |
| Fund Balance | \$ 67,491 | \$ 42,838 | \$ 24,653 |

Motor Vehicle Fund - The Motor Vehicle Fund had a decrease in revenues from fewer sales of fixed assets. Total expenditures increased from the purchase of fixed assets and minor increases in salaries, fringe benefits, and supplies.

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|------------------------|---------------------|-------------------|---------------|
| Revenues/Transfers | \$ 540,736 | \$ 550,850 | \$ (10,114) |
| Expenditures/Transfers | \$ 452,081 | \$ 443,221 | \$ 8,860 |
| Fund Balance | \$ 566,021 | \$ 477,366 | \$ 88,655 |

Financial Analysis

Governmental Funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined unreserved fund balances of \$441,834.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$490,704. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance to total fund expenditures. Unreserved fund balance represents 26% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$43,284 during the fiscal year.

Proprietary Funds: The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Fund equity at the end of the year amounted to \$2,002,667. Of this amount \$1,659,651 is unrestricted.

Capital Assets and Debt Administration

The City's investment in capital assets for the governmental and business-type activities as of June 30, 2007, amounts to \$6,891,196. This investment in capital assets includes land, buildings, improvements, machinery and equipment. The Major Street Fund capital assets increased from the Elevations Street improvements.

Additional information on the City's capital assets can be found starting on page 35 of this report.

Long-term debt: At the end of the current fiscal year, the City had total debt of \$3,709,576. This total amount is backed by the full faith and credit of the City.

Additional information on the City's long-term debt can be found starting page 36 of this report.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the City Manager at 399 Quincy Street, Hancock, Michigan 49933 or call (906) 482-2720.

CITY OF HANCOCK
STATEMENT OF NET ASSETS

June 30, 2007

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|--------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS: | | | | |
| CURRENT ASSETS: | | | | |
| Cash | \$ 188,789 | \$ 67,749 | \$ 256,538 | \$ 137,732 |
| Restricted cash | 175,050 | 107,346 | 282,396 | - |
| Investments | 28,039 | - | 28,039 | - |
| Restricted investments | - | 237,034 | 237,034 | - |
| Receivables | 190,654 | 130,682 | 321,336 | 18,500 |
| Inventories | 57,393 | 82,441 | 139,834 | - |
| Prepaid expenses | 96,707 | 2,108 | 98,815 | - |
| Due from fiduciary funds | 4,882 | - | 4,882 | - |
| Internal balances | 578,665 | (578,665) | - | - |
| Due from other governmental units | 111,302 | - | 111,302 | - |
| TOTAL CURRENT ASSETS | 1,431,481 | 48,695 | 1,480,176 | 156,232 |
| NONCURRENT ASSETS: | | | | |
| Non-depreciable capital assets | 163,800 | - | 163,800 | 114,288 |
| Depreciable capital assets-Net | 3,091,696 | 3,635,700 | 6,727,396 | - |
| TOTAL NONCURRENT ASSETS | 3,255,496 | 3,635,700 | 6,891,196 | 114,288 |
| TOTAL ASSETS | \$ 4,686,977 | \$ 3,684,395 | \$ 8,371,372 | \$ 270,520 |
| LIABILITIES: | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable and accrued expenses | \$ 54,396 | \$ 5,635 | \$ 60,031 | \$ - |
| Due to other governmental units | - | 8,531 | 8,531 | - |
| Bonds payable, current maturities | 61,000 | 35,000 | 96,000 | - |
| Note payable, current maturities | 51,373 | - | 51,373 | - |
| TOTAL CURRENT LIABILITIES | 166,769 | 49,166 | 215,935 | - |
| NONCURRENT LIABILITIES: | | | | |
| Bonds payable, less current maturities | 1,817,000 | 1,632,562 | 3,449,562 | - |
| Note payable, less current maturities | 112,643 | - | 112,643 | - |
| Compensated absences | 349,273 | - | 349,273 | - |
| TOTAL NONCURRENT LIABILITIES | 2,278,916 | 1,632,562 | 3,911,478 | - |
| TOTAL LIABILITIES | 2,445,685 | 1,681,728 | 4,127,413 | - |
| NET ASSETS: | | | | |
| Invested in capital assets, net of related debt | 3,089,343 | - | 3,089,343 | - |
| Restricted for debt service | (2,116,537) | - | (2,116,537) | - |
| Reserved | 159,876 | 343,016 | 502,892 | - |
| Unreserved | 1,108,610 | 1,659,651 | 2,768,261 | 270,520 |
| TOTAL NET ASSETS | 2,241,292 | 2,002,667 | 4,243,959 | 270,520 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 4,686,977 | \$ 3,684,395 | \$ 8,371,372 | \$ 270,520 |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
STATEMENT OF ACTIVITIES

June 30, 2007

| FUNCTIONS/PROGRAMS | Program Revenues | | | | Net (Expense) Revenue and | | | Component Unit |
|--|------------------|----------------------|------------------------------------|----------------------------------|---------------------------|--------------------------|--------------|----------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Changes in Net Assets | | | |
| | | | | | Primary Government | | | |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary government: | | | | | | | | |
| Government activities: | | | | | | | | |
| General government | \$ 1,455,711 | \$ 744,543 | \$ - | \$ - | \$ (711,168) | \$ - | \$ (711,168) | \$ - |
| Public safety | 639,164 | 2,144 | 3,000 | - | (634,020) | - | (634,020) | - |
| Public works | 1,950,351 | 539,033 | 355,812 | 124,264 | (931,242) | - | (931,242) | - |
| Sanitation | 278,372 | 162,794 | - | - | (115,578) | - | (115,578) | - |
| Recreation and culture | 134,796 | 63,145 | - | - | (71,651) | - | (71,651) | - |
| Interest on long-term debt | 25,291 | - | - | - | (25,291) | - | (25,291) | - |
| Other | 157,581 | 117,361 | - | - | (40,222) | - | (40,222) | - |
| Total governmental activities | 4,641,268 | 1,629,020 | 358,812 | 124,264 | (2,529,172) | - | 2,529,172 | - |
| Business-type activities: | | | | | | | | |
| Water | 685,294 | 532,470 | - | - | - | (152,824) | (152,824) | - |
| Sewer | 682,811 | 619,864 | - | - | - | (62,947) | (62,947) | - |
| Parking Meter | 19,877 | 12,531 | - | - | - | (7,346) | (7,346) | - |
| Transit | 160,929 | 35,448 | 79,265 | - | - | (46,216) | (46,216) | - |
| Total business-type activities | 1,548,911 | 1,200,313 | 79,265 | - | - | 269,333 | 269,333 | - |
| Total primary government | \$ 6,190,179 | \$ 2,829,333 | \$ 438,077 | \$ 124,264 | (2,529,172) | (269,333) | (2,798,505) | - |
| Component unit: | | | | | | | | |
| DDA District | \$ 46,394 | \$ - | \$ - | \$ - | - | - | - | (46,394) |
| General Revenues: | | | | | | | | |
| Property taxes, levied for general operations | | | | | 1,081,879 | - | 1,081,879 | 103,208 |
| State shared revenue | | | | | 1,080,851 | - | 1,080,851 | - |
| Interest and investment earnings | | | | | 33,524 | 13,523 | 47,047 | 3,953 |
| Transfers | | | | | (89,312) | 89,312 | - | - |
| Gain on sale of assets | | | | | 120,571 | - | 120,571 | - |
| Other | | | | | 321,387 | 30,983 | 352,370 | 767 |
| Total general revenues, transfers, and special items | | | | | 2,548,900 | 133,818 | 2,682,718 | 107,928 |
| Change in Net Assets | | | | | 19,728 | (135,515) | (115,787) | 61,534 |
| Net Assets - Beginning | | | | | 2,221,564 | 2,138,182 | 4,359,746 | 208,986 |
| Net Assets - Ending | | | | | \$ 2,241,292 | \$ 2,002,667 | \$ 4,243,959 | \$ 270,520 |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007

| | Major Governmental Funds | | | | Other | Total |
|------------------------------|--------------------------|------------------|-------------------|-------------------|-------------------|---------------------|
| | General | Major Street | Local Street | CDBG | Non-major | Total |
| | Fund | Fund | Fund | Fund | Governmental | Governmental |
| | | | | | Funds | Funds |
| ASSETS: | | | | | | |
| Cash and cash equivalents | \$ 68,019 | \$ 14,628 | \$ 2,244 | \$ - | \$ 63,936 | \$ 148,827 |
| Investments | 28,039 | - | - | - | - | 28,039 |
| Taxes receivable | 46,179 | - | 90,381 | - | 45 | 136,605 |
| Accounts receivable | 39,582 | - | - | - | - | 39,582 |
| Due from other funds | 327,460 | - | 60,000 | - | 39,000 | 426,460 |
| Due from governmental units | 62,467 | 32,851 | 15,984 | - | - | 111,302 |
| Inventory | 30,684 | - | - | - | - | 30,684 |
| Prepaid expenses | 35,468 | - | - | - | - | 35,468 |
| Restricted cash | 60,774 | - | - | 110,860 | 1,760 | 173,394 |
| TOTAL ASSETS | \$ 698,672 | \$ 47,479 | \$ 168,609 | \$ 110,860 | \$ 104,741 | \$ 1,130,361 |
| LIABILITIES: | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 24,544 | \$ - | \$ 24,544 |
| Accrued expenses | 12,024 | 291 | 913 | - | 831 | 14,059 |
| Due to other funds | 135,260 | 109,663 | 236,451 | - | 10,330 | 491,704 |
| TOTAL LIABILITIES | 147,284 | 109,954 | 237,364 | 24,544 | 11,161 | 530,307 |
| FUND BALANCES: | | | | | | |
| Reserved | 60,684 | - | - | 95,787 | 1,749 | 158,220 |
| Unreserved | 490,704 | (62,475) | (68,755) | (9,471) | 91,831 | 441,834 |
| | 551,388 | (62,475) | (68,755) | 86,316 | 93,580 | 600,054 |
| TOTAL LIABILITIES AND | | | | | | |
| FUND BALANCES | \$ 698,672 | \$ 47,479 | \$ 168,609 | \$ 110,860 | \$ 104,741 | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|---|---------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 3,075,649 |
| Internal service fund is used to charge costs of equipment and operations to individual funds. The assets and liabilities are included in the governmental activities of the statement of net assets. | 633,512 |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds. | (2,067,923) |
| Net assets of governmental activities | <u>\$ 2,241,292</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2007

| | Major Governmental Funds | | | | Other Non-major Governmental Funds | Total Governmental Funds |
|---|--------------------------|--------------------|--------------------|------------------|---|--------------------------------|
| | General | Major Street | Local Street | CDBG | | |
| Revenues: | | | | | | |
| Taxes | \$ 968,397 | \$ - | \$ 90,380 | \$ - | \$ 23,102 | \$ 1,081,879 |
| State revenue | 473,187 | 436,483 | 171,181 | - | - | 1,080,851 |
| Federal revenue | 3,000 | 124,264 | - | 355,812 | - | 483,076 |
| Charges for services | 344,925 | - | - | - | 130,220 | 475,145 |
| Interest | 39,731 | 843 | 726 | - | 1,220 | 42,520 |
| Other revenue | 131,761 | 1,008 | 679 | 120,457 | - | 253,905 |
| Total revenues | <u>1,961,001</u> | <u>562,598</u> | <u>262,966</u> | <u>476,269</u> | <u>154,542</u> | <u>3,417,376</u> |
| Expenditures: | | | | | | |
| General government | 380,026 | 32,208 | 6,436 | 65,543 | 16,545 | 500,758 |
| Public safety | 639,164 | - | - | - | - | 639,164 |
| Public works | 182,974 | 616,581 | 407,826 | 420,197 | 48,144 | 1,675,722 |
| Sanitation | 278,372 | - | - | - | - | 278,372 |
| Recreation and culture | 134,796 | - | - | - | - | 134,796 |
| Debt Service | 53,291 | - | - | - | - | 53,291 |
| Other | 77,241 | - | - | - | 97,220 | 174,461 |
| Total expenditures | <u>1,745,864</u> | <u>648,789</u> | <u>414,262</u> | <u>485,740</u> | <u>161,909</u> | <u>3,456,564</u> |
| Excess (deficiency) of revenue over expenditures | <u>215,137</u> | <u>(86,191)</u> | <u>(151,296)</u> | <u>(9,471)</u> | <u>(7,367)</u> | <u>(39,188)</u> |
| Other Financing Sources (Uses) | | | | | | |
| Operating transfers in | - | - | 82,541 | - | - | 82,541 |
| Operating transfers out | (171,853) | - | - | - | - | (171,853) |
| Total other financing sources (uses) | <u>(171,853)</u> | <u>-</u> | <u>82,541</u> | <u>-</u> | <u>-</u> | <u>(89,312)</u> |
| Net change in fund balance | 43,284 | (86,191) | (68,755) | (9,471) | (7,367) | (128,500) |
| Fund Balances - Beginning of Year | 508,104 | 23,716 | - | 95,787 | 99,198 | |
| Fund Balances - End of Year | <u>\$ 551,388</u> | <u>\$ (62,475)</u> | <u>\$ (68,755)</u> | <u>\$ 86,316</u> | <u>\$ 91,831</u> | |

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|------------------|
| Governmental funds do not record depreciation and report capital outlays as expenditures. This amount represents depreciation. | (13,694) |
| Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt. | (59,000) |
| Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred. | (10,386) |
| Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities. | (113,308) |
| Change in net assets of governmental activities | <u>\$ 19,728</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
PROPRIETARY FUNDS
BALANCE SHEET
Year Ended June 30, 2007

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities |
|--|---|---------------------|--------------------------------------|---------------------|---------------------------------------|
| | Major Funds | | | | |
| | Sewer Fund | Water Fund | Non-major Business- Type Funds | Total | Internal Internal Service Funds |
| ASSETS: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 41,254 | \$ 15,284 | \$ 11,211 | \$ 67,749 | \$ 39,962 |
| Restricted cash | 13,021 | 94,325 | - | 107,346 | 1,656 |
| Restricted investments | 140,217 | 96,817 | - | 237,034 | - |
| Accounts receivable | 70,517 | 60,045 | 120 | 130,682 | 14,467 |
| Inventory | 25,843 | 56,598 | - | 82,441 | 26,709 |
| Due from other funds | - | - | - | - | 648,791 |
| Prepaid expenses | - | - | 2,108 | 2,108 | 61,239 |
| Total current assets | 290,852 | 323,069 | 13,439 | 627,360 | 792,824 |
| Property, plant, and equipment | 5,787,904 | 5,681,267 | 120,010 | 11,589,181 | 1,570,752 |
| Accumulated depreciation & amortization | (4,544,326) | (3,295,055) | (114,100) | (7,953,481) | (1,390,905) |
| | 1,243,578 | 2,386,212 | 5,910 | 3,635,700 | 179,847 |
| TOTAL ASSETS | \$ 1,534,430 | \$ 2,709,281 | \$ 19,349 | \$ 4,263,060 | \$ 972,671 |
| LIABILITIES: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 2,497 | \$ - | \$ - | \$ 2,497 | \$ 9,181 |
| Accrued expenses | 829 | 564 | 1,745 | 3,138 | 165,962 |
| Due to other funds | 63,745 | 494,894 | 20,026 | 578,665 | - |
| Due to other governmental units | 8,531 | - | - | 8,531 | - |
| Current maturities on long term debt | 10,000 | 25,000 | - | 35,000 | 51,373 |
| Total current liabilities | 85,602 | 520,458 | 21,771 | 627,831 | 226,516 |
| Long-term liabilities: | | | | | |
| Bonds/note payable | 65,000 | 1,567,562 | - | 1,632,562 | 112,643 |
| TOTAL LIABILITIES | 150,602 | 2,088,020 | 21,771 | 2,260,393 | 339,159 |
| FUND EQUITY: | | | | | |
| Retained earnings: | | | | | |
| Reserved | 153,238 | 189,778 | - | 343,016 | 1,656 |
| Unreserved | 1,230,590 | 431,483 | (2,422) | 1,659,651 | 631,856 |
| Total retained earnings | 1,383,828 | 621,261 | (2,422) | 2,002,667 | 633,512 |
| TOTAL FUND EQUITY | 1,383,828 | 621,261 | (2,422) | 2,002,667 | 633,512 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 1,534,430 | \$ 2,709,281 | \$ 19,349 | \$ 4,263,060 | \$ 972,671 |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN RETAINED EARNINGS
Year Ended June 30, 2007

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities |
|--|---|---------------|-------------------------------------|--------------|----------------------------|
| | Major Funds | | Non-major Business Type funds | Total | Internal Service Funds |
| | Sewer Fund | Water Fund | | | |
| OPERATING REVENUES: | | | | | |
| Sales and charges for services | \$ 619,864 | \$ 532,470 | \$ 47,979 | \$ 1,200,313 | \$ 1,283,576 |
| State revenue | - | - | 74,379 | 74,379 | - |
| Federal revenue | - | - | 24,886 | 24,886 | - |
| Other revenue | - | 10,339 | 644 | 10,983 | 48,206 |
| TOTAL OPERATING REVENUES | 619,864 | 542,809 | 147,888 | 1,310,561 | 1,331,782 |
| OPERATING EXPENSES: | | | | | |
| General administration | 35,144 | 85,057 | 37,241 | 157,442 | 793,524 |
| Meter reading | 9,258 | 9,298 | - | 18,556 | - |
| Purchase of water | - | 172,266 | - | 172,266 | - |
| Operations and maintenance | 534,764 | 240,036 | 125,926 | 900,726 | 309,172 |
| Depreciation | 99,395 | 106,432 | 17,639 | 223,466 | 102,806 |
| TOTAL OPERATING EXPENSES | 678,561 | 613,089 | 180,806 | 1,472,456 | 1,205,502 |
| OPERATING INCOME (LOSS) | (58,697) | (70,280) | (32,918) | (161,895) | 126,280 |
| NON-OPERATING REVENUES (EXPENSES): | | | | | |
| Gain on sale of asset | - | - | - | - | 50 |
| Interest income | 7,329 | 5,900 | 294 | 13,523 | 1,100 |
| Interest expense | (4,250) | (72,205) | - | (76,455) | (14,122) |
| Operating transfers in | - | 43,000 | 46,312 | 89,312 | - |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 3,079 | (23,305) | 46,606 | 26,380 | (12,972) |
| NET INCOME (LOSS) | (55,618) | (93,585) | 13,688 | (135,515) | 113,308 |
| RETAINED EARNINGS, BEGINNING OF YEAR | 1,439,446 | 714,846 | (16,110) | 2,138,182 | 520,204 |
| ADJUSTMENTS TO FUND EQUITY: | | | | | |
| Add depreciation on fixed assets | | | | | |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | \$ 1,383,828 | \$ 621,261 | \$ (2,422) | \$ 2,002,667 | \$ 633,512 |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2007

| | Business Type Activities Enterprise Funds | Governmental Activities Internal Service Funds | Total |
|---|--|---|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 1,298,511 | \$ 0 | \$ 1,298,511 |
| Payments to suppliers | (821,747) | (1,055,969) | (1,877,716) |
| Internal activity -- receipts (payments) to other funds | (211,682) | 1,254,174 | 1,042,492 |
| Payments to employees | (224,741) | (34,641) | (259,382) |
| Other receipts (payments) | 10,983 | 51,130 | 62,113 |
| Net cash provided by operating activities | <u>51,324</u> | <u>214,694</u> | <u>266,018</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating subsidies and transfers to other funds | <u>71,070</u> | <u>(121,265)</u> | <u>(50,195)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Capital Contributions | 0 | 0 | 0 |
| Purchases of capital assets | 0 | (7,500) | (7,500) |
| Sale of capital assets | 0 | 50 | 50 |
| Principal paid on capital debt | (27,000) | (71,684) | (98,684) |
| Interest paid on capital debt | (76,455) | (14,122) | (90,577) |
| Net cash (used) by capital and related financing activities | <u>(103,455)</u> | <u>(93,256)</u> | <u>(196,711)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of investments | (28,145) | 0 | (28,145) |
| Interest and dividends | 13,523 | 1,100 | 14,623 |
| Net cash provided by investing activities | <u>(14,622)</u> | <u>1,100</u> | <u>(13,522)</u> |
| Net (decrease) in cash and cash equivalents | 4,317 | 1,273 | 5,590 |
| Balances -- beginning of the year | 170,778 | 40,345 | 211,123 |
| Balances -- end of the year | <u>\$ 175,095</u> | <u>\$ 41,618</u> | <u>\$ 216,713</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ (161,895) | \$ 126,280 | \$ (35,615) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 223,466 | 102,806 | 326,272 |
| Change in assets and liabilities: | | | |
| Receivables, net | (1,070) | 2,924 | 1,854 |
| Due from other governmental units | 8,473 | 0 | 8,473 |
| Inventory | (7,185) | (13,355) | (20,540) |
| Prepaid expenses | 643 | (291) | 352 |
| Accounts and other payables | (6,684) | (5,110) | (11,794) |
| Due to other governmental | (5,485) | 0 | (5,485) |
| Accrued expenses | 1,061 | 1,440 | 2,501 |
| Net cash provided by operating activities | <u>\$ 51,324</u> | <u>\$ 214,694</u> | <u>\$ 266,018</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HANCOCK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2007

With Comparative Totals at June 30, 2006

| | Non-Expendable Trust Fund | | | Totals | |
|-----------------------------------|------------------------------|-----------------|--------------|-------------------|-------------------|
| | Cemetery | Agency Funds | | (Memorandum Only) | |
| | Perpetual | | | | |
| | Care Trust | Agency | Payroll | 2007 | 2006 |
| ASSETS: | | | | | |
| Cash and equivalents | \$ 73,265 | \$ 7,453 | \$ 25 | \$ 80,743 | \$ 75,415 |
| Investments | 90,551 | - | - | 90,551 | 86,650 |
| TOTAL ASSETS | <u>\$ 163,816</u> | <u>\$ 7,453</u> | <u>\$ 25</u> | <u>\$ 171,294</u> | <u>\$ 162,065</u> |
| LIABILITIES: | | | | | |
| Accounts payable | \$ - | \$ - | \$ 25 | \$ 25 | \$ 2,129 |
| Due to general fund | - | 4,882 | - | 4,882 | 1,675 |
| Due to other governmental units | - | 2,571 | - | 2,571 | 198 |
| TOTAL LIABILITIES | <u>-</u> | <u>7,453</u> | <u>25</u> | <u>7,478</u> | <u>4,002</u> |
| FUND EQUITY: | | | | | |
| Fund balance: | | | | | |
| Reserved | 163,816 | - | - | 163,816 | 158,063 |
| TOTAL FUND EQUITY | <u>163,816</u> | <u>-</u> | <u>-</u> | <u>163,816</u> | <u>158,063</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 163,816</u> | <u>\$ 7,453</u> | <u>\$ 25</u> | <u>\$ 171,294</u> | <u>\$ 162,065</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

On November 10, 1987, the voters of the City of Hancock voted to establish a Charter Commission for the purpose of rewriting the City Charter that was adopted on July 13, 1982. A new City Charter was drafted by the Charter Commission and approved by the State of Michigan on November 16, 1987. On August 2, 1988, City voters approved the new charter, which changed the City's form of government to the City Council/Manager form.

The City provides services for public safety, public works, sanitation, recreation, and community development as authorized by its Charter.

The accounting policies of the City of Hancock conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Hancock (the primary government) and its component unit. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The criteria and guidelines of the Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the City. The primary criterion for inclusion is the degree of oversight responsibility over such entities by the City's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity.

The following organizations are not included in the reporting entity of the City:

Hancock Housing Commission

The Hancock Housing Commission was formulated to construct and operate housing for low income families and senior citizens. The elements considered in the City's determination that the Hancock Housing Commission should not be included as part of the City's general purpose financial statements are as follows:

1. Neither the Council nor management of the City of Hancock is responsible for the designation of the Housing Commission management. Similarly, the City of Hancock does not approve Housing Commission budgets nor does it significantly influence operations.
2. The City of Hancock does not have significant fiscal management responsibilities; it is not responsible for funding or guaranteeing debt, nor does it have a right to receive surplus funds.
3. The City of Hancock provides no ongoing financial support to the Hancock Housing Commission, nor do any special financing relationships exist.
4. Residency in the housing complex is not limited to City residents.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Audited financial information of the Hancock Housing Commission as of and for the year ended December 31, 2006 is as follows:

| | |
|--------------------------------------|---------------------|
| Total assets | <u>\$ 1,459,558</u> |
| Total liabilities | \$ 122,771 |
| Total equity | <u>1,336,787</u> |
| Total liabilities and surplus | <u>\$ 1,459,558</u> |
| Operating income | \$ 684,079 |
| Operating expenses | <u>839,665</u> |
| Net operating income | (155,586) |
| Net Non-operating revenues(expenses) | <u>1,177</u> |
| Net income | <u>\$ (154,409)</u> |

Portage Lake Water and Sewage Authority

On January 24, 1964, the City of Houghton and the City of Hancock executed a contract to jointly acquire, construct, equip, and operate a sewage treatment plant, including necessary intercepting sewers and appurtenances. Each municipality was to bear one-half of the cost of the sewage treatment plant, pumping stations, and necessary appurtenances and the full cost of its own intercepting sewers. Title to the sewage plant, including land and ownership shall be in the name of the authority whereas the ownership of the intercepting sewers, vests in the respective municipality. Funds for the construction of these facilities were provided by each municipality through the issuance and sale of general obligation bonds and grants totaling \$500,000 from the Federal government. By joint agreement, operating expenses incurred from the inception of operations to February 29, 1966, were shared equally, and for the balance of 1966 on the basis of two-thirds to the City of Houghton, and one-third to the City of Hancock. The contract provides for a joint board to control, manage, and operate the facility with each municipality to share the cost of operation, maintenance, and administration on the basis of relative usage as determined by metered services with 50 percent of the costs of capital expenditures to be paid by each municipality. On December 14, 1972, this agreement was amended to provide allocation of future capital expenditures on the basis of relative usage. The joint board consists of five members of which two are appointed by the respective City Councils and the fifth member appointed by the other four members.

The elements considered in the City's determination that the Portage Lake Water and Sewage Authority should not be included as a component unit of the City are as follows:

1. The City of Hancock is not responsible for the designation of the Authority's management.
2. The City does not approve the Authority's annual budget or budget amendments.
3. The City does not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The City does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the City of Houghton.
6. The City provides no direct on-going financial support to the Water and Sewage Authority.
7. The City does not hold title to the physical assets of the Authority.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2007 (most recent year audited) shows the following:

| | |
|--------------------|---------------|
| Total Assets | \$ 10,999,543 |
| Total Liabilities | \$ 9,392,694 |
| Total Equity | \$ 1,606,849 |
| Total Revenues | \$ 1,297,981 |
| Total Expenditures | \$ 2,191,562 |
| Long-Term Debt | \$ 8,710,800 |

Financial transactions between the City and the Authority, reported in the accompanying financial statements, constitute contractual agreements with the Authority for providing services to the City.

COMPONENT UNITS

In conformity with generally accepted accounting principles, the financial statements of component units, have been included in the financial reporting entity either as blended component units or as discretely presented component units.

DISCRETELY PRESENTED COMPONENT UNITS

The component units' columns in the combined financial statements include the financial data of the City's component unit, the Downtown Development Authority (DDA). This unit is reported in a separate column to emphasize that it is legally separate from the City. Complete financial statements of the DDA may be obtained from the City Clerks Office, 399 Quincy Street, Hancock, MI 49930.

BLENDED COMPONENT UNITS

City of Hancock Building Authority

The Authority is an entity legally separate from the City. The Authority is governed by a board appointed by the City and is reported as if it were part of the City's operations because its primary purpose is that of a financing vehicle for the construction of City facilities.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the City.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The City first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The City does not allocate indirect costs.

The government-wide focus is more on the sustain ability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds, Enterprise funds, Internal Service funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund- The Major Street Fund accounts for the State of Michigan Public Act 51 monies that are used to construct and maintain major road systems.

Local Street Fund- The Local Street Fund accounts for taxes and special assessments for local street purposes.

Community Block Development Grant (CDBG) Fund - CDBG Fund accounts for grant revenue and expenditures.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other non-major funds include: Elevation Street TIFA Fund, Debt Service (Building Authority), and Residential Capital Project.

PROPRIETARY FUND TYPES

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary funds principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds included the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Village reports the following proprietary funds:

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund, Sewer Fund, Parking Fund, and Transit Fund are enterprise type funds.

Internal Service Funds- Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost reimbursement basis. The City's Motor Vehicle Fund and Employee Benefit Fund are Internal Service Type Funds.

The City reports the following major proprietary funds:

Sewer Fund- The Sewer Fund records maintenance and operations of the sewer services provided for City residents and is financed primarily through user charges and bonds.

Water Fund- The Water Fund records maintenance and operations of the water system services provided for the City residents and it is primarily financed through user charges and bonds.

FIDUCIARY FUND TYPES

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Fiduciary Funds are not included in the government-wide statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Other Accounting Policies

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The City reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statute authorizes the City to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The City is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes on tax roll properties attach as an enforceable lien on property as of December 31, are levied annually on July 1, and are due on August 10. A one percent (1%) penalty per month is added to the tax liability for taxes not paid by August 10.

The City bills and collects its own property taxes, and those of the local school City, the Intermediate School district, and County. Collections of other units' taxes and remittance of these collections are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables

Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivables, are shown net of allowance for uncollectables.

Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund consists of expendable supplies. The individual inventory supplies are recorded as an asset when purchased.

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|-------------|
| Buildings and additions | 20-50 years |
| Vehicles | 5-10 years |
| Furniture and other equipment | 5-10 years |

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with an activity are included on their balance sheets. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is generally reflected over the estimated useful lives using the straight line method.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The City does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Requirements for preparing the City's annual budget are outlined in the City Charter. Major procedures in preparing the annual budget are as follows:

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.
2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2007, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

In accordance with the State of Michigan Budgeting and Accounting Act, the City must adopt an annual operating budget for the General and Special Revenue.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for major funds are noted in the required supplementary information section.

NOTE C - CASH AND INVESTMENTS

As of June 30, 2007 the City had the following investments:

| Investment Type | Fair Value | Rating |
|----------------------------|-------------------|--------|
| Treasury Money Market Fund | <u>\$ 355,624</u> | AAA |

Interest Rate Risk - In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE C - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk - The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2007, \$341,838 of the City's bank balance of \$962,376 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

At year-end, the City's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the City is as follows:

| | Governmental Activities | Business Type Activities | Total Primary Government | Component Units | Fiduciary Funds |
|---------------------------------|----------------------------|-----------------------------|-----------------------------|--------------------|--------------------|
| Unrestricted | \$ 188,789 | \$ 67,749 | \$ 256,538 | \$ 137,732 | \$ 0 |
| Restricted Cash | 175,050 | 107,346 | 282,396 | 0 | 80,743 |
| Total Cash and Cash Equivalents | 363,839 | 175,095 | 538,934 | 137,732 | 80,743 |
| Unrestricted Investments | 28,039 | 0 | 28,039 | 0 | 0 |
| Restricted Investments | 0 | 237,034 | 237,034 | 0 | 90,551 |
| Total Investments | 28,039 | 237,034 | 265,073 | 0 | 90,551 |
| Total deposits and investments | \$ 391,878 | \$ 412,129 | \$ 804,007 | \$ 137,732 | \$ 171,294 |

NOTE D - TRANSFERS AND INTERFUND BALANCES

For the year then ended, interfund transfers consisted of the following:

| Fund | Transfer Out | Fund | Transfer In |
|---------|-----------------|---------------|----------------|
| General | \$ 171,853 | Local Street | \$ 82,541 |
| | | Parking Meter | 14,925 |
| | | Transit | 31,387 |
| | | Water | 43,000 |
| TOTALS | \$ 171,853 | TOTALS | \$ 171,853 |

The transfers from the General Fund and other non-major governmental funds to the Major and Local Street Funds and other non-major governmental funds represents the use of unrestricted resources to finance these programs, in accordance with budgetary authorizations. The transfers from all funds to the Employee Benefits Fund and the Motor Vehicle funds represents the amounts paid for the services provided from each service fund.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE D - TRANSFERS AND INTERFUND BALANCES (Continued)

The amounts of interfund receivables and payables at June 30, 2007 are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|-------------------|---------------------------------|---------------------------------|------------------------------|
| General | \$ 327,460 | Transit | \$ 20,000 |
| | | Trust and Agency | 4,882 |
| | | Sewer | 43,475 |
| | | Water | 259,103 |
| Subtotal | <u>327,460</u> | Subtotal | <u>327,460</u> |
| Local Street | 60,000 | General | 60,000 |
| Subtotal | <u>60,000</u> | Subtotal | <u>60,000</u> |
| Employee Benefits | 144,695 | General | 58,512 |
| | | Local Street | 21,157 |
| | | Water | 65,026 |
| Subtotal | <u>144,695</u> | Subtotal | <u>144,695</u> |
| Motor Vehicle | 504,096 | General | 16,748 |
| | | Major | 109,663 |
| | | Local Street | 215,294 |
| | | Parking | 26 |
| | | Sewer | 770 |
| | | Water | 151,265 |
| | | Residential Capital Projects | 10,330 |
| Subtotal | <u>504,096</u> | Subtotal | <u>504,096</u> |
| Elevation Street | 39,000 | Sewer | 19,500 |
| | | Water | 19,500 |
| Subtotal | <u>39,000</u> | Subtotal | <u>39,000</u> |
| TOTALS | <u>\$ 1,075,251</u> | TOTALS | <u>\$ 1,075,251</u> |

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payable between funds.

NOTE E - RECEIVABLES

The detail of receivables at June 30, 2007 are as follows:

| <u>Receivables</u> | <u>General</u> | <u>Special Revenue</u> | <u>Enterprise</u> | <u>Total Primary Government</u> |
|--------------------|------------------|----------------------------|-------------------|-------------------------------------|
| Accounts | \$ 39,582 | \$ 0 | \$ 130,682 | \$ 300,946 |
| Taxes | 46,179 | 90,426 | 0 | 136,605 |
| Total receivables | <u>\$ 85,761</u> | <u>\$ 90,426</u> | <u>\$ 130,682</u> | <u>\$ 437,551</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE F - FIXED ASSETS

A summary of the changes in general fixed assets is as follows:

| | Balance 6/30/06 | Additions | Subtractions | Balance 6/30/07 |
|----------------------------|--------------------|-----------|--------------|--------------------|
| Land | \$ 163,800 | \$ 0 | \$ 0 | \$ 163,800 |
| Depreciable Capital Assets | | | | |
| Buildings | 2,094,777 | 0 | 0 | 2,094,777 |
| Equipment | 143,328 | 0 | 0 | 143,328 |
| Improvements | 1,168,193 | 186,697 | 0 | 1,354,890 |
| Vehicles | 951,621 | 0 | 0 | 951,621 |
| Subtotal | 4,357,919 | 186,697 | 0 | 4,544,616 |
| Accumulated Depreciation | | | | |
| Buildings | (745,092) | (53,893) | 0 | (798,985) |
| Equipment | (103,829) | (8,045) | 0 | (111,874) |
| Improvements | (405,501) | (67,926) | 0 | (473,427) |
| Vehicles | (177,954) | (70,526) | 0 | (248,480) |
| Subtotal | (1,432,376) | (200,390) | 0 | (1,632,766) |
| Net Capital Assets | 2,925,543 | | | 2,911,850 |
| Net capital assets | \$ 3,089,343 | | | \$ 3,075,650 |

Depreciation expense was charged to governmental activities of the Village as follows:

| | |
|--------------------|-------------------|
| General Fund | \$ 151,043 |
| Major Streets Fund | 12,000 |
| Local Streets Fund | 37,347 |
| | <u>\$ 200,390</u> |

NOTE G - PROPRIETARY FUNDS - PROPERTY, PLANT, AND EQUIPMENT

The components of property, plant, and equipment in City proprietary funds at June 30, 2007 are summarized as follows:

| | Enterprise | Internal Service | Total |
|-----------------------------|---------------------|-------------------|---------------------|
| Land and Improvements | \$ 0 | \$ 11,506 | \$ 11,506 |
| Buildings | 2,400,417 | 0 | 2,400,417 |
| System Lines | 8,830,875 | 0 | 8,830,875 |
| Vehicles | 85,896 | 1,420,122 | 1,506,018 |
| Equipment | 271,993 | 139,125 | 411,118 |
| Total | 11,589,181 | 1,570,753 | 13,159,934 |
| Allowances for Depreciation | (7,953,481) | (1,390,906) | (9,344,387) |
| Balance | <u>\$ 3,635,700</u> | <u>\$ 179,847</u> | <u>\$ 3,815,547</u> |

NOTE H - RESTRICTED ASSETS - PROPRIETARY FUNDS

Enterprise Funds: Certain proceeds from operations of the Water Supply System Fund and Sewer Disposal Fund are restricted for the payment of revenue and general obligation bonds and, accordingly, are recorded as restricted cash assets in the amount of \$107,346 as of June 30, 2007. Both the Sewer and Water Funds balance sheets have restricted cash in the amount of \$13,021 and \$94,325, respectively. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$1,656 as of June 30, 2007.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE I - ACCUMULATED UNPAID VACATION AND SICK LEAVE

City employees generally earn sick leave at the rate of one day per month. Accumulated sick leave per employee cannot exceed ninety (90) days and is paid to union employees upon retirement or to beneficiaries in case of death. At termination, non-union employees receive 2/25 of their accumulated sick leave plus an additional 1/25 of that accumulation for each year of service until full accumulation is paid for 25 years of service or age 65. Vacation pay is accumulated annually based on length of service and must be used within one year.

Accumulated unpaid vacation and sick leave at June 30, 2007 was \$89,586 and \$69,764, respectively.

NOTE J - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

1997 Building Authority Bonds: On August 15, 1997, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$533,800 to fund the construction of a new fire hall. The bond was issued in a single denomination of \$533,800 at an interest rate not to exceed 5.0% per annum with principal amounts payable August 1 and interest payable semi-annually on February 1 and August 1.

SCHEDULE OF 1997 BUILDING AUTHORITY BONDS

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|-------------------|-------------------|-------------------|
| 2007-08 | \$ 10,000 | \$ 23,000 | \$ 33,000 |
| 2008-09 | 15,000 | 22,500 | 37,500 |
| 2009-10 | 15,000 | 21,875 | 36,875 |
| 2010-11 | 15,000 | 21,125 | 36,125 |
| 2011-12 | 15,000 | 20,375 | 35,375 |
| 2012-13 | 15,000 | 19,625 | 34,625 |
| 2013-14 | 15,000 | 18,875 | 33,875 |
| 2014-15 | 20,000 | 18,125 | 38,125 |
| 2015-16 | 20,000 | 17,250 | 37,250 |
| 2016-17 | 20,000 | 16,250 | 36,250 |
| 2017-18 | 20,000 | 15,250 | 35,250 |
| 2018-23 | 120,000 | 60,125 | 180,125 |
| 2023-28 | 155,000 | 28,250 | 183,250 |
| TOTALS | \$ 455,000 | \$ 302,625 | \$ 757,625 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE J - LONG-TERM DEBT (Continued)

1998 Building Authority Bonds: On March 19, 1998, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$1,048,000 to fund the construction of a new department of public works garage. The bond was issued in a single denomination of \$1,048,000 at an interest rate of 4.75% per annum with principal amounts payable April 1 and interest payable semi-annually on April 1 and October 1.

SCHEDULE OF 1998 BUILDING AUTHORITY BONDS

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|-------------------|-------------------|---------------------|
| 2007-08 | \$ 23,000 | \$ 43,296 | \$ 66,296 |
| 2008-09 | 25,000 | 42,251 | 67,251 |
| 2009-10 | 26,000 | 41,111 | 67,111 |
| 2010-11 | 28,000 | 39,900 | 67,900 |
| 2011-12 | 29,000 | 38,618 | 67,618 |
| 2012-13 | 31,000 | 37,264 | 68,264 |
| 2013-14 | 32,000 | 35,839 | 67,839 |
| 2014-15 | 34,000 | 34,343 | 68,343 |
| 2015-16 | 36,000 | 32,775 | 68,775 |
| 2016-17 | 38,000 | 31,113 | 69,113 |
| 2017-18 | 41,000 | 29,355 | 70,355 |
| 2018-23 | 240,000 | 116,447 | 356,447 |
| 2023-28 | 318,000 | 55,813 | 373,813 |
| TOTALS | \$ 901,000 | \$ 578,125 | \$ 1,479,125 |

U.S. Department of Agriculture Community Facilities Loans: On October 26, 2006, the City of Hancock was awarded a note of \$550,000 for the purpose of purchasing two fire trucks. The note was issued for \$550,000 at an Interest rate of 4.25% per annum with principal amounts payable October 1 and interest payable semi-annually on October 1 and April 1.

This note is subject to prepayment at any time prior to the dates on which principal and interest are due at the discretion of the City, upon seven days written notice to the USDA.

SCHEDULE OF USDA COMMUNITY FACILITIES LOAN

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|-------------------|-------------------|-------------------|
| 2007-08 | \$ 28,000 | \$ 21,782 | \$ 49,782 |
| 2008-09 | 30,000 | 20,539 | 50,539 |
| 2009-10 | 31,000 | 19,231 | 50,231 |
| 2010-11 | 32,000 | 17,880 | 49,880 |
| 2011-12 | 33,000 | 16,487 | 49,487 |
| 2012-13 | 35,000 | 15,029 | 50,029 |
| 2013-14 | 35,000 | 13,528 | 48,528 |
| 2014-15 | 37,000 | 11,984 | 48,984 |
| 2015-16 | 39,000 | 10,355 | 49,355 |
| 2016-17 | 41,000 | 8,640 | 49,640 |
| 2017-18 | 43,000 | 6,839 | 49,839 |
| 2018-19 | 45,000 | 4,952 | 49,952 |
| 2019-20 | 46,000 | 3,001 | 49,001 |
| 2020-21 | 47,000 | 1,008 | 48,008 |
| TOTALS | \$ 522,000 | \$ 171,255 | \$ 693,255 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE J - LONG-TERM DEBT (Continued)

ENTERPRISE FUNDS

1997 Water Supply System Revenue Bond: On November 5, 1997, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$1,320,000 for the purpose of constructing improvements to the City's water supply system. The bond was issued in a single denomination of \$1,320,000 at an interest rate of 4.5% per annum with principal amounts payable November 1 and interest payable semi-annually on November 1 and May 1. Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after November 1, 2001, at par plus accrued interest to the date fixed for prepayment.

| <u>1997 WATER SUPPLY SYSTEM REVENUE BONDS</u> | | | |
|---|---------------------|-------------------|---------------------|
| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2007-08 | \$ 18,000 | \$ 51,730 | \$ 69,730 |
| 2008-09 | 19,000 | 51,100 | 70,100 |
| 2009-10 | 20,000 | 50,268 | 70,268 |
| 2010-11 | 21,000 | 49,390 | 70,390 |
| 2011-12 | 22,000 | 48,468 | 70,468 |
| 2012-13 | 23,000 | 47,500 | 70,500 |
| 2013-14 | 24,000 | 46,488 | 70,488 |
| 2014-15 | 25,000 | 45,430 | 70,430 |
| 2015-16 | 26,000 | 44,328 | 70,328 |
| 2016-17 | 27,000 | 43,180 | 70,180 |
| 2017-18 | 29,000 | 41,988 | 70,988 |
| 2018-23 | 165,000 | 189,847 | 354,847 |
| 2023-28 | 210,000 | 149,750 | 359,750 |
| 2028-33 | 262,000 | 99,103 | 361,103 |
| 2033-38 | 253,562 | 35,889 | 289,451 |
| TOTALS | \$ 1,144,562 | \$ 994,459 | \$ 2,139,021 |

1998 Water Supply System Revenue Bond: On October 20, 1998, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$500,000 for the purpose of constructing a new water tower. The bond was issued in a single denomination of \$500,000 at an interest rate of 4.5% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1.

| <u>SCHEDULE OF 1998 WATER SUPPLY SYSTEM REVENUE BONDS</u> | | | |
|---|-------------------|-------------------|-------------------|
| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2007-08 | \$ 7,000 | \$ 20,160 | \$ 27,160 |
| 2008-09 | 7,000 | 19,845 | 26,845 |
| 2009-10 | 8,000 | 19,530 | 27,530 |
| 2010-11 | 8,000 | 19,170 | 27,170 |
| 2011-12 | 8,000 | 18,810 | 26,810 |
| 2012-13 | 9,000 | 18,450 | 27,450 |
| 2013-14 | 9,000 | 18,045 | 27,045 |
| 2014-15 | 10,000 | 17,640 | 27,640 |
| 2015-16 | 10,000 | 17,190 | 27,190 |
| 2016-17 | 10,000 | 16,740 | 26,740 |
| 2017-18 | 11,000 | 16,290 | 27,290 |
| 2018-23 | 59,000 | 73,890 | 132,890 |
| 2023-28 | 77,000 | 59,085 | 136,085 |
| 2028-33 | 95,000 | 40,275 | 135,275 |
| 2033-38 | 120,000 | 16,650 | 136,650 |
| TOTALS | \$ 448,000 | \$ 391,770 | \$ 839,770 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE J - LONG-TERM DEBT (Continued)

Sanitary Sewage Disposal System Revenue Bonds: On September 16, 1976, the City of Hancock authorized the sale of Sanitary Sewage Disposal System Revenue Bonds in the amount of \$290,000. The bonds were issued in denominations of \$5,000 at an interest rate of 5% per annum with principal amounts payable January 1 and interest payable semi-annually on July 1 and January 1.

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City, at par plus accrued interest to the date fixed for redemption.

| Year | Principal | Interest | Total |
|---------------|------------------|------------------|------------------|
| 2007-08 | \$ 10,000 | \$ 3,750 | \$ 13,750 |
| 2008-09 | 10,000 | 3,250 | 13,250 |
| 2009-10 | 10,000 | 2,750 | 12,750 |
| 2010-11 | 10,000 | 2,250 | 12,250 |
| 2011-12 | 10,000 | 1,750 | 11,750 |
| 2012-13 | 10,000 | 1,250 | 11,250 |
| 2013-14 | 15,000 | 750 | 15,750 |
| TOTALS | \$ 75,000 | \$ 15,750 | \$ 90,750 |

INTERNAL SERVICE FUNDS - INSTALLMENT LOANS

| Purpose of Note | Date | Original | Maturity | Interest Rate | Balance | Current Portion |
|-----------------------|----------|------------|----------|---------------|-----------|-----------------|
| Street Sweeper | 01/10/05 | \$ 112,000 | 01/10/08 | 3.47% | \$ 16,443 | \$ 16,443 |
| Sander and Dump truck | 10/01/04 | \$ 161,496 | 09/30/10 | 3.6% | \$111,351 | \$ 26,382 |
| Cat Backhoe | 08/17/05 | \$ 44,345 | 08/17/09 | 4.3% | \$ 36,220 | \$ 8,547 |

As of June 30, 2007, the aggregate maturities of loans payable are as follows:

| Year | Principal | Interest | Total |
|---------------|-------------------|------------------|-------------------|
| 2007-08 | \$ 51,372 | \$ 5,755 | \$ 57,127 |
| 2008-09 | 36,236 | 3,862 | 40,098 |
| 2009-10 | 47,068 | 2,069 | 49,137 |
| 2010-11 | 29,338 | 1,052 | 30,390 |
| TOTALS | \$ 164,014 | \$ 12,738 | \$ 176,752 |

Changes in long-term debt principal are summarized below:

| | Balance 06/30/06 | Additions | Retired | Balance 06/30/07 | Current Maturities |
|---------------------------------|---------------------|-------------|-------------------|---------------------|-----------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Building Authority Bonds - 1997 | \$ 465,000 | \$ 0 | \$ 10,000 | \$ 455,000 | \$ 10,000 |
| Building Authority Bonds - 1998 | 922,000 | 0 | 21,000 | 901,000 | 23,000 |
| USDA Community Facilities Loan | 550,000 | 0 | 28,000 | 522,000 | 28,000 |
| | <u>1,937,000</u> | <u>0</u> | <u>59,000</u> | <u>1,878,000</u> | <u>61,000</u> |
| ENTERPRISE FUNDS | | | | | |
| Water System Bonds - 1997 | 1,154,562 | 0 | 10,000 | 1,144,562 | 18,000 |
| Water System Bonds - 1998 | 455,000 | 0 | 7,000 | 448,000 | 7,000 |
| Sewage Disposal Bonds - 1976 | 85,000 | 0 | 10,000 | 75,000 | 10,000 |
| | <u>1,694,562</u> | <u>0</u> | <u>27,000</u> | <u>1,667,562</u> | <u>35,000</u> |
| INTERNAL SERVICE FUND | | | | | |
| Installment Loans | 235,720 | 0 | 71,706 | 164,014 | 51,372 |
| TOTALS | \$ 3,867,282 | \$ 0 | \$ 157,706 | \$ 3,709,576 | \$ 147,372 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE J - LONG-TERM DEBT (Continued)

The aggregate amount of maturities on long-term debt by fund type for each of the next 5 years, and to maturity, is as follows:

| <u>GOVERNMENTAL ACTIVITIES</u> | | | |
|--------------------------------|---------------------|---------------------|---------------------|
| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2007-08 | \$ 61,000 | \$ 88,078 | \$ 149,078 |
| 2008-09 | 70,000 | 85,290 | 155,290 |
| 2009-10 | 72,000 | 82,217 | 154,217 |
| 2010-11 | 75,000 | 78,905 | 153,905 |
| 2011-12 | 77,000 | 75,480 | 152,480 |
| 2012-13 | 81,000 | 71,918 | 152,918 |
| 2013-14 | 82,000 | 68,242 | 150,242 |
| 2014-15 | 91,000 | 64,452 | 155,452 |
| 2015-16 | 95,000 | 60,380 | 155,380 |
| 2016-17 | 99,000 | 56,003 | 155,003 |
| 2017-18 | 104,000 | 51,444 | 155,444 |
| 2018-23 | 498,000 | 185,533 | 683,533 |
| 2023-28 | 473,000 | 84,063 | 557,063 |
| TOTALS | \$ 1,878,000 | \$ 1,052,005 | \$ 2,930,005 |

| <u>INTERNAL SERVICE FUNDS</u> | | | |
|-------------------------------|-------------------|------------------|-------------------|
| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2007-08 | \$ 51,372 | \$ 5,755 | \$ 57,127 |
| 2008-09 | 36,236 | 3,862 | 40,098 |
| 2009-10 | 47,068 | 2,069 | 49,137 |
| 2010-11 | 29,337 | 1,052 | 30,389 |
| TOTALS | \$ 164,013 | \$ 12,738 | \$ 176,751 |

| <u>ENTERPRISE FUNDS</u> | | | |
|-------------------------|---------------------|---------------------|---------------------|
| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2007-08 | \$ 35,000 | \$ 75,640 | \$ 110,640 |
| 2008-09 | 36,000 | 74,195 | 110,195 |
| 2009-10 | 38,000 | 72,548 | 110,548 |
| 2010-11 | 39,000 | 70,810 | 109,810 |
| 2011-12 | 40,000 | 69,028 | 109,028 |
| 2012-13 | 42,000 | 67,200 | 109,200 |
| 2013-14 | 48,000 | 65,283 | 113,283 |
| 2014-15 | 35,000 | 63,070 | 98,070 |
| 2015-16 | 36,000 | 61,518 | 97,518 |
| 2016-17 | 37,000 | 59,920 | 96,920 |
| 2017-18 | 40,000 | 58,278 | 98,278 |
| 2018-23 | 224,000 | 263,737 | 487,737 |
| 2023-28 | 287,000 | 208,835 | 495,835 |
| 2028-33 | 357,000 | 139,378 | 496,378 |
| 2023-28 | 373,562 | 52,539 | 426,101 |
| TOTALS | \$ 1,667,562 | \$ 1,401,979 | \$ 3,069,541 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE K - ENTERPRISE FUNDS

SEGMENT INFORMATION - The City maintains four Enterprise Funds which provide water, sewer, parking, and transit services. Segment information for the year ended June 30, 2007 is as follows:

| | <u>Parking Meter</u> | <u>Transit</u> | <u>Sewer</u> | <u>Water</u> |
|--|----------------------|----------------|--------------|--------------|
| Operating revenues | \$ 12,531 | \$ 135,357 | \$ 619,864 | \$ 542,809 |
| Depreciation | \$ 0 | \$ 17,639 | \$ 99,395 | \$ 106,432 |
| Income (loss) from operations | \$ (7,346) | \$ (25,572) | \$ (58,697) | \$ (70,280) |
| Non-operating revenues | \$ 14,964 | \$ 31,642 | \$ 7,329 | \$ 48,900 |
| Non-operating expenses | \$ 0 | \$ 0 | \$ 4,250 | \$ 72,205 |
| Net Income (loss) | \$ 7,618 | \$ 6,070 | \$ (55,618) | \$ (93,585) |
| Property, plant & equipment | | | | |
| Additions | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Total assets | \$ 3,196 | \$ 16,153 | \$ 1,534,430 | \$ 2,709,281 |
| Net working capital surplus (deficit) | \$ (2,895) | \$ 11,227 | \$ 205,250 | \$ 196,491 |
| Long-term liabilities: | | | | |
| Payable from operating revenues | \$ 0 | \$ 0 | \$ 65,000 | \$ 1,567,562 |
| Total equity | \$ 2,895 | \$ (5,317) | \$ 1,383,828 | \$ 621,261 |
| | <u>Parking Meter</u> | <u>Transit</u> | <u>Sewer</u> | <u>Water</u> |
| Net cash provided (used) by: | | | | |
| Operating activities | \$ (7,230) | \$ (10,591) | \$ 53,875 | \$ 15,270 |
| Noncapital financing activities | \$ 8,278 | \$ 10,963 | \$ (31,258) | \$ 83,087 |
| Capital & related financing activities | \$ 0 | \$ 0 | \$ (14,250) | \$ (89,205) |
| Investing activities | \$ 39 | \$ 255 | \$ 1,306 | \$ (16,222) |
| Beginning cash | \$ 2,029 | \$ 7,468 | \$ 44,602 | \$ 116,679 |
| Ending cash | \$ 3,116 | \$ 8,095 | \$ 54,275 | \$ 109,609 |

NOTE L - RESERVES AND RESTRICTED ASSETS

The ordinance authorizing issuance of the 1997 and 1998 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Account - Quarterly transfers are to be made in the sum of at least \$2,480 per quarter, with the annual requirement equal to \$9,920 until there is accumulated in such fund the aggregate sum of \$131,700.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Repair and Replacement Account - Quarterly transfers are to be made in the sum of not less than \$2,843, with the annual requirement equal to \$11,370. When the balance in the Bond Reserve Account reaches \$131,700, the quarterly transfer will be increased to \$5,323.

At June 30, 2007, the City had established these accounts and had restricted cash, as required, as follows:

| | <u>Required 06/30/07</u> | <u>Amount Funded</u> |
|--------------------------------------|------------------------------|--------------------------|
| Bond reserve account | \$ 69,440 | \$ 69,440 |
| Bond and interest redemption account | 21,936 | 23,330 |
| Repair & Replacement account | 79,590 | 79,590 |
| | <u>\$ 170,966</u> | <u>\$ 172,360</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE M - TRANSIT FUND

The Transit fund receives grant revenue under Section 10e(4) of PA 51. These funds are to be used to pay for eligible operating expenses for public transportation. The Local Bus Operating Assistance revenue under Act 51 is disbursed to the City based on the amount of eligible operating expenses at the current reimbursement rate. The Local Audit Division of the Michigan Department of Treasury and the Bus Transit Division of MDOT administer the audit disclosures and compliance requirements.

NOTE N - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2007, the Downtown Development District (DDD), the Elevation Street City (ESD), and the MTEPS (Smart Zone) City. The taxes on the DDD and the ESD Cities are levied based on the increase of the state equalized value of the properties from the base year to the current year and are levied on both real and personal property. The DDD expanded the base year in 1993 from the 1984 initial base year. The tax revenues generated from the DDD and the ESD are recorded in the Downtown Development Authority Fund and Elevation Street TIFA Fund respectively.

On April 11, 2001, The Michigan Economic Development Corporation approved the application for a Smart Park that was submitted by the Michigan Tech Enterprise Smart Zone (MTEPS). The MTEPS is a partnership between Michigan Technological University, the City of Hancock and the City of Houghton. The MTEPS will be funded for the first 2 years by a state grant. Thereafter, it will be funded through a tax increment financing City which includes the entire Cities of Hancock and Houghton. The tax is levied annually with the school millage only and will continue until the year 2017. The Smart Zone TIF plan will not affect either City's current tax revenue. The tax revenue levied for the summer 2007 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2007, via the Local Development Finance Authority - the financing entity.

Summary of TIF City data as of June 30, 2007:

| | Downtown Development 1984 | TIF District Local Street (Elevation) 1993 | MTEPS 1999 |
|---------------------------------------|---------------------------------|---|---------------|
| Base year | | | |
| State Equalized Value (SEV) base year | | | |
| Real property | \$ 9,460,000 | \$ 143,000 | \$ 46,361,834 |
| Personal property | \$ 0 | \$ 0 | \$ 3,038,189 |
| Current year SEV | | | |
| Real property | \$ 13,672,503 | \$ 1,048,988 | \$ 63,096,466 |
| Personal property | \$ 0 | \$ 87,879 | \$ 4,447,122 |
| Increase (Decrease) of taxable value | | | |
| Real | \$ 4,260,503 | \$ 905,988 | \$ 16,761,277 |
| Personal property | \$ 0 | \$ 87,879 | \$ 1,408,933 |
| Authorized tax mills levied-Homestead | 24.6 | 23.3 | 11.9928 |
| Non-homestead | | | 3 |
| Tax revenue collected | \$ 103,208 | \$ 21,060 | \$ 108,461 |

NOTE O - PENSION PLAN

DEFINED BENEFIT PENSION PLAN

Plan Description: The City contributes to the Municipal Employees' Retirement System of Michigan (MERS) which is an agent multiple employer public defined benefit employee retirement plan. The City adopted the plan on December 1, 2002, and transferred MERS member employees plan assets from the previous money purchase defined contribution plan to the new retirement system in January 2003. The new MERS system was also funded with employee retirement benefits accrued based on agreements from the prior money purchase plan but not deposited into the plan for the period January 2002 to November 2002. The MERS provides retirement, disability, and death benefits to plan members and beneficiaries.

The plan covers all employees of the City, except those already covered by a union bargaining agreement or otherwise not qualified. Currently, 12 active members are enrolled. An employee is eligible for full retirement benefits after 8 years of credited service and age 60 is attained. The annual pension benefit at retirement is based on 2% of the employees Final Average Compensation (FAC) multiplied by the years and months of service. FAC is the average of the highest consecutive 5-year period of the employees' credited service. A month of service is credited if at least 80 hours are worked in that month. Retirement benefits vest after 8 years of service, and are not paid until the date retirement would have occurred had the member remained an employee.

MERS was created under Public Act 135 of 1945, as repealed and replaced by Public Act 427 of 1984. On August 15, 1996, pursuant to 1996 PA 220, MERS became an independent public non-profit corporation. Prior to that time MERS was a component unit of the State of Michigan. MERS is currently administered solely by a nine-member Retirement Board. A publicly available financial report that includes financial statements and required supplementary information is issued annually by MERS. The report may be obtained by writing to Municipal Employees' Retirement System of MI, 1134 Municipal Way, Lansing MI, 48917 or by calling 1-517-703-9030.

Funding Policy: Plan members are required to contribute 3.3% of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate is 9.23% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the MERS Retirement Board.

Annual Pension Cost: For the year ended June 30, 2007, the City's required and actual pension cost was \$52,093. The annual required contribution percentage was determined as a part of the Initial Actuarial Valuation on January 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include a net investment rate of return on assets of 8 percent per year compounded annually, projected salary increases of 4.5 percent per year compounded annually due to inflation, and additional projected salary increases ranging from 0 to 4.5 percent per year depending on an age to reflect merit and longevity. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Any unfunded actuarial liability is amortized by a level percent of payroll contributions over a period of 30 years.

Information trend comparison as required by GASB No. 27 and 25 is as follows:

| Fiscal Year Ended June 30 | 2007 | 2006 | 2005 |
|-------------------------------|-----------|-----------|-----------|
| Annual pension cost (APC) | \$ 52,093 | \$ 52,055 | \$ 49,509 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ 0 | \$ 0 | \$ 0 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007

NOTE O - PENSION PLAN (Continued)

DEFINED CONTRIBUTION PENSION UNION AGREEMENT

The City provides pension benefits for all Teamster employees per the signed union bargaining agreement. For the year ending June 30, 2007, the City made weekly contributions of \$69 to a defined contribution plan based on years of service.

Contributions for Teamster employees are paid to the Central States Southeast & Southwest Areas Pension Fund. The Teamster employees are not required to contribute to the pension plan. The City does not administer the pension plan for Teamster employees and therefore has no liability beyond its weekly contributions.

NOTE P - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees that enter into a joint agreement with the City, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be the property of the Plan's participants and are no longer subject to the City's general creditors. Because the City relies on a third party for investment and administration of the plan, the 457 plan assets are excluded from the financial statements.

NOTE Q - RESERVED FUND BALANCE

The City has restricted cash and investment accounts net of liabilities that are restricted for specific future use as follows:

| General Fund | | Other Funds | | Enterprise Funds | |
|------------------------|------------------|-------------------|------------------|------------------|-------------------|
| Dupee Shaft | \$ 23,425 | CDBG | \$ 95,787 | Cash | |
| Main Street Local Pool | 31,459 | Debt Retirement | 1,760 | Sewer Fund | \$ 13,021 |
| Perry House | 270 | Subtotal | 97,547 | Water Fund | 111,743 |
| Civic Flowers | 1,892 | | | Investments | |
| Parks Round Up | 3,347 | Employee benefits | 1,656 | Sewer Fund | 140,217 |
| Sister City | 140 | | | Water Fund | 78,035 |
| Maasto Hiihto | 151 | | | | |
| | <u>\$ 60,684</u> | | <u>\$ 99,203</u> | | <u>\$ 343,016</u> |

The Cemetery Perpetual Care Trust balance of \$163,816 is reserved for the perpetual care payments.

NOTE R - DESIGNATED FUND BALANCE

In 1981, funds of a Community Development Block Grant were used to establish a revolving commercial loan program to assist local businesses who have exhausted other means of obtaining credit. The balance in the General Fund's Main Street Loan Pool of \$31,549 represents the cash balance of the commercial loan program. As of June 30, 2007, there were no outstanding loan balances. The City provides these loans interest free.

NOTE S - DEFICIT FUND BALANCE

The financial statements for the Major Street Fund, Local Street Fund and the Transit Fund had fund deficits at June 30, 2007 of \$62,475, \$68,755 and \$5,317, respectively.

NOTE T - SUBSEQUENT EVENTS

The City was awarded the following grants and loan:

- \$91,126 MDOT grant for the purchase of 2 buses awarded August 17, 2006, as of June 30, 2007 has not been expended.
- \$125,000 Small Urban Grant awarded January 12, 2007, as of June 30, 2007 no expenditures had been incurred.
- \$3,500,000 MDEQ loan for water system improvements awarded on April 19, 2007. The project is scheduled to start in May of 2008.
- \$604,000 USDA grant for city hall renovation project which is scheduled to begin on September 1, 2007.
- \$103,996 MDOT grant for the purchase of 2 buses with lifts awarded on September 11, 2006, as of June 30, 2007 has not yet been expended.
- \$33,000 USDA grant to be used towards the purchase of two 4 wheel drive police vehicles awarded September 11, 2007.
- \$243,900 MSHDA rental rehabilitation grant awarded July 1, 2007.

NOTE U - RELATED PARTY TRANSACTIONS

The Portage Lake Water and Sewage Authority is a jointly governed organization consisting of five members, of which two are appointed by the respective City Councils of Houghton and Hancock, and the fifth member appointed by the other four members. The entity is not a component unit of the City. Further financial information is detailed in Note A of these financial statements. As of June 30, 2007, The City of Hancock owed Portage Lake Water and Sewage Authority \$8,531, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due to other governmental units.

NOTE V - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2007

| | Budgeted Amounts | | Actual (GAAP Basis) | Variance Final to Actual |
|--|------------------|--------------|------------------------|-----------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources | \$ 1,411,165 | \$ 1,471,234 | \$ 1,484,814 | \$ 13,580 |
| State sources | 507,417 | 522,248 | 473,187 | (49,061) |
| Federal sources | - | - | 3,000 | 3,000 |
| TOTAL REVENUE | 1,918,582 | 1,993,482 | 1,961,001 | (32,481) |
| EXPENDITURES: | | | | |
| General government | | | | |
| Board/Legislative | 13,492 | 16,502 | 15,720 | 782 |
| Manager | 102,230 | 102,230 | 94,728 | 7,502 |
| Clerk | 59,770 | 59,770 | 51,439 | 8,331 |
| Treasurer | 66,977 | 68,774 | 49,367 | 19,407 |
| Legal, accounting, and audit | 25,028 | 29,652 | 27,588 | 2,064 |
| Assessor | 24,564 | 33,220 | 32,582 | 638 |
| Planning and professional services | 4,950 | 25,110 | 24,777 | 333 |
| Elections | 10,779 | 12,507 | 13,595 | (1,088) |
| Building and grounds | 19,451 | 23,434 | 23,590 | (156) |
| Cemetery | 30,531 | 49,344 | 46,640 | 2,704 |
| Public safety | 622,358 | 635,519 | 639,164 | (3,645) |
| Public works | 167,121 | 169,515 | 182,974 | (13,459) |
| Sanitation | 284,738 | 294,839 | 278,372 | 16,467 |
| Recreation and culture | 129,863 | 150,832 | 134,796 | 16,036 |
| Debt service | 51,500 | 51,500 | 53,291 | (1,791) |
| Inventory sand/Calcium | 78,843 | 32,500 | 37 | 32,463 |
| Other | 63,463 | 67,409 | 77,204 | (9,795) |
| TOTAL EXPENDITURES | 1,755,658 | 1,822,657 | 1,745,864 | 76,793 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 162,924 | 170,825 | 215,137 | 44,312 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Loan proceeds | 100 | 100 | - | - |
| Operating transfers out | (107,743) | (171,853) | (171,853) | - |
| NET CHANGE IN FUND BALANCE | \$ 55,281 | \$ (928) | 43,284 | \$ 44,312 |
| FUND BALANCE - BEGINNING OF YEAR | | | 508,104 | |
| FUND BALANCE - END OF YEAR | | | \$ 551,388 | |

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND

For the Year Ended June 30, 2007

| | Budgeted Amounts | | Actual (GAAP Basis) | Variance Final to Actual |
|--|------------------|--------------|------------------------|-----------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| State and federal | \$ 469,839 | \$ 471,439 | \$ 560,747 | \$ 89,308 |
| Interest | 1,206 | 1,206 | 843 | (363) |
| Other revenue | - | 1,010 | 1,008 | (2) |
| TOTAL REVENUE | 471,045 | 473,655 | 562,598 | 88,943 |
| EXPENDITURES: | | | | |
| General government administration | 18,282 | 27,838 | 32,208 | (4,370) |
| Highway and streets: | | | | |
| Construction | 48,005 | 98,500 | 217,628 | (119,128) |
| State trunkline maintenance | 203,401 | 244,617 | 212,980 | 31,637 |
| Routine maintenance | 41,513 | 41,513 | 22,297 | 19,216 |
| Traffic services | 2,717 | 5,871 | 14,359 | (8,488) |
| Snow and ice control | 125,750 | 145,896 | 148,622 | (2,726) |
| Sweeping and flushing | 7,399 | 7,399 | 695 | 6,704 |
| TOTAL EXPENDITURES | 447,067 | 571,634 | 648,789 | (77,155) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 23,978 | (97,979) | (86,191) | 11,788 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | (21,084) | (21,084) | - | 21,084 |
| NET CHANGE IN FUND BALANCE | \$ 2,894 | \$ (119,063) | (86,191) | \$ 32,872 |
| FUND BALANCE - BEGINNING OF YEAR | | | 23,716 | |
| FUND BALANCE - END OF YEAR | | | \$ (62,475) | |

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND
For the Year Ended June 30, 2007

| | Budgeted Amounts | | Actual | Variance |
|--|-------------------|-------------------|--------------------|--------------------|
| | Original | Final | (GAAP Basis) | Final to Actual |
| REVENUES: | | | | |
| Local Sources | \$ 91,800 | \$ 91,800 | \$ 90,380 | \$ (1,420) |
| State and federal | 188,064 | 188,263 | 171,181 | (17,082) |
| Interest | 241 | 241 | 726 | 485 |
| Other revenue | - | - | 679 | 679 |
| TOTAL REVENUE | 280,105 | 280,304 | 262,966 | (17,338) |
| EXPENDITURES: | | | | |
| General government administration | 5,939 | 5,939 | 6,436 | (497) |
| Highway and streets: | | | | |
| Construction | 52,036 | 71,800 | 88,730 | (16,930) |
| Routine maintenance | 137,234 | 155,408 | 146,599 | 8,809 |
| Traffic services | 2,011 | 6,600 | 6,011 | 589 |
| Snow and ice control | 171,297 | 165,500 | 163,161 | 2,339 |
| Sweeping and flushing | 11,018 | 11,018 | 3,325 | 7,693 |
| TOTAL EXPENDITURES | 379,535 | 416,265 | 414,262 | 2,003 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (99,430) | (135,961) | (151,296) | (15,335) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | 383,730 | 383,930 | 82,541 | |
| Operating transfers out | - | - | - | - |
| NET CHANGE IN FUND BALANCE | \$ 284,300 | \$ 247,969 | (68,755) | \$ (15,335) |
| FUND BALANCE - BEGINNING OF YEAR | | | - | |
| FUND BALANCE - END OF YEAR | | | \$ (68,755) | |

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - CDBG FUND
For the Year Ended June 30, 2007

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|--|-------------------------|--------------|---------------------|------------------------|
| | <u>Original</u> | <u>Final</u> | <u>(GAAP Basis)</u> | <u>Final to Actual</u> |
| REVENUES: | | | | |
| Federal | \$ 109,304 | \$ 476,000 | \$ 355,812 | \$ (120,188) |
| Other revenue | - | - | 120,457 | 120,457 |
| TOTAL REVENUE | 109,304 | 476,000 | 476,269 | 269 |
| EXPENDITURES: | | | | |
| General government | 5,939 | 5,939 | 65,543 | (59,604) |
| Public works | - | - | 420,197 | - |
| TOTAL EXPENDITURES | 5,939 | 5,939 | 485,740 | (59,604) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 103,365 | 470,061 | (9,471) | (479,532) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | 383,730 | 383,930 | - | - |
| Operating transfers out | - | - | - | - |
| NET CHANGE IN FUND BALANCE | \$ 487,095 | \$ 853,991 | (9,471) | \$ (479,532) |
| FUND BALANCE - BEGINNING OF YEAR | | | 95,787 | |
| FUND BALANCE - END OF YEAR | | | \$ 86,316 | |

SUPPLEMENTAL FINANCIAL INFORMATION

CITY OF HANCOCK
GENERAL FUND
BALANCE SHEETS
June 30, 2007
With Comparative Totals at June 30, 2006

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|-------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 68,019 | \$ 67,530 |
| Investments | 28,039 | 24,472 |
| Receivables | | |
| Delinquent taxes | 46,179 | 39,693 |
| Service customers (includes unbilled) | 18,258 | 17,478 |
| Other | 21,324 | 41,321 |
| Due from other funds | 322,578 | 330,478 |
| Due from government units | 62,467 | 60,396 |
| Prepaid expenses | 35,468 | 33,622 |
| Inventory | 30,684 | 14,142 |
| Restricted cash | 60,774 | 62,667 |
| TOTAL ASSETS | <u>\$ 693,790</u> | <u>\$ 691,799</u> |
| LIABILITIES: | | |
| Accounts payable | \$ - | \$ 20,088 |
| Accrued expenses | 12,024 | 11,642 |
| Due to other funds | 135,260 | 150,204 |
| Due to fiduciary funds | - | 1,761 |
| TOTAL LIABILITIES | <u>147,284</u> | <u>183,695</u> |
| FUND BALANCES: | | |
| Reserved | 60,684 | 62,667 |
| Unreserved | 490,704 | 445,437 |
| TOTAL FUND BALANCES | <u>551,388</u> | <u>508,104</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 698,672</u> | <u>\$ 691,799</u> |

CITY OF HANCOCK
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year Ended June 30, 2007

With Comparative Actual Amounts for Year Ended June 30, 2006

| REVENUES: | BUDGET | ACTUAL | VARIANCE | 2006 |
|----------------------------------|------------|------------|----------|------------|
| Current taxes: | | | | |
| Property taxes | \$ 851,300 | \$ 848,684 | \$ 2,616 | \$ 758,433 |
| Personal property taxes | 62,800 | 66,430 | (3,630) | 53,732 |
| Penalties & interest on tax | 5,000 | 6,679 | (1,679) | 3,966 |
| Payments in lieu of tax | 18,097 | 12,539 | 5,558 | 14,731 |
| Tax administration fees | 35,150 | 34,065 | 1,085 | 32,427 |
| Total current taxes | 972,347 | 968,397 | 3,950 | 863,289 |
| State and federal revenue: | | | | |
| DNR grant | - | - | - | 5,700 |
| Federal Grant | - | - | - | 85,000 |
| Police training | 1,448 | 1,847 | (399) | 921 |
| USDA Grant | - | 3,000 | (3,000) | - |
| Sales tax | 501,600 | 466,964 | 34,636 | 501,101 |
| Liquor tax | 4,380 | 4,376 | 4 | 4,349 |
| Total state and federal revenue | 507,428 | 476,187 | 31,241 | 597,071 |
| Charges for services: | | | | |
| Vault service | 2,550 | 2,720 | (170) | 2,195 |
| Burial open and close | 12,065 | 8,550 | 3,515 | 10,685 |
| Garbage collection | 164,000 | 162,794 | 1,206 | 160,130 |
| Campground revenue | 61,506 | 62,395 | (889) | 60,852 |
| Beach rental fees | 800 | 750 | 50 | 1,075 |
| Other charges | 99,861 | 97,522 | 2,339 | 99,001 |
| Cemetery lots | 5,572 | 8,050 | (2,478) | 2,725 |
| Total charges for services | 346,354 | 342,781 | 3,573 | 336,663 |
| Fines, forfeitures and penalties | 3,060 | 2,144 | 916 | 1,988 |
| Rentals: | | | | |
| Interest income | 22,610 | 29,635 | (7025) | 13,038 |
| Cemetery interest | 1,050 | 1,266 | (216) | 612 |
| Land rents | 483 | 1,210 | (727) | 2,285 |
| Office rental | 9,193 | 7,620 | 1,573 | 7,620 |
| Total Rentals | 33,336 | 39,731 | (6395) | 23,555 |
| Other revenue: | | | | |
| Sale of assets | 87,251 | 87,521 | (270) | 80,773 |
| Parks Round-up contributions | 100 | 182 | (82) | 73 |
| Sand and salt sales | - | 455 | (455) | 693 |
| Cable franchise fee | 19,720 | 33,900 | (14,180) | 28,580 |
| Reimbursement | 5,000 | 6,217 | (1,217) | 6,906 |
| Licenses and permits | 570 | 570 | - | 10,000 |
| Miscellaneous | 3,496 | 2,916 | 580 | 11,311 |
| Total other revenue | 116,137 | 131,761 | (15,624) | 138,336 |
| TOTAL REVENUES | 1,978,662 | 1,961,001 | 17,661 | 1,960,902 |

CITY OF HANCOCK
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2007
With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|---|----------------|----------------|-----------------|------------------|
| EXPENDITURES: | | | | |
| General government administration: | | | | |
| Legislative | 15,225 | 14,933 | 292 | 11,729 |
| City manager | 102,230 | 94,728 | 7,502 | 87,411 |
| Planning and professional services | 25,109 | 24,777 | 332 | 14,695 |
| Clerk | 59,769 | 51,439 | 8,330 | 48,845 |
| Treasurer | 68,774 | 49,367 | 19,407 | 48,916 |
| Attorney | 9,652 | 8,087 | 1,565 | 11,990 |
| Assessor | 33,220 | 32,582 | 638 | 26,974 |
| Elections | 12,507 | 13,595 | (1,088) | 8,437 |
| Accounting and computer services | 20,000 | 19,501 | 499 | 13,857 |
| Board of review | 1,279 | 787 | 492 | 936 |
| Building and grounds | 23,434 | 23,590 | (156) | 19,693 |
| Cemetery | 49,343 | 46,640 | 2,703 | 46,062 |
| Total general government administration | <u>420,542</u> | <u>380,026</u> | <u>40,516</u> | <u>339,545</u> |
| Public safety: | | | | |
| Police | 560,948 | 569,291 | (8,343) | 604,414 |
| Fire | 71,570 | 66,983 | 4,587 | 717,879 |
| Protective inspections | 3,000 | 2,890 | 110 | 12,500 |
| Total public safety | <u>635,518</u> | <u>639,164</u> | <u>(3,646)</u> | <u>1,334,793</u> |
| Public works: | | | | |
| Department of public works | 94,944 | 88,223 | 6,721 | 105,442 |
| Winter maintenance | 1,211 | 139 | | 690 |
| Equipment rental-street lighting | 69,360 | 91,191 | (21,831) | 65,422 |
| Sidewalks and curbs | 4,000 | 3,421 | 579 | 3,744 |
| Total public works | <u>169,515</u> | <u>182,974</u> | <u>(13,459)</u> | <u>175,298</u> |
| Sanitation: | | | | |
| Garbage collection | 160,001 | 151,575 | 8,426 | 169,276 |
| Landfill | 106,100 | 87,593 | 18,507 | 89,415 |
| Spring and fall cleanup | 28,738 | 39,204 | (10,466) | 36,404 |
| Total sanitation | <u>294,839</u> | <u>278,372</u> | <u>16,467</u> | <u>295,095</u> |
| Culture and recreation: | | | | |
| Parks | 44,433 | 29,663 | 14,770 | 37,972 |
| Water front development | 2,762 | 2,106 | 656 | 1,978 |
| Beach | 22,688 | 17,400 | 5,288 | 8,411 |
| Campground | 57,021 | 61,864 | (4,843) | 60,508 |
| Ski trails | 17,308 | 17,124 | 184 | 2,705 |
| Skating rinks | 6,621 | 6,639 | (18) | 5,769 |
| Total culture and recreation | <u>150,833</u> | <u>134,796</u> | <u>16,037</u> | <u>117,343</u> |

CITY OF HANCOCK
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2007
With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|--------------------|-------------------|--------------------|-------------------|
| Debt Service | <u>51,500</u> | <u>53,291</u> | <u>(1,791)</u> | <u>28,970</u> |
| Inventory sand/calclum | <u>32,500</u> | <u>37</u> | <u>32,463</u> | <u>-</u> |
| Other: | | | | |
| Community promotion | 31,409 | 41,253 | (9,844) | 45,312 |
| Insurance | <u>36,000</u> | <u>35,951</u> | <u>49</u> | <u>36,570</u> |
| Total other | <u>67,409</u> | <u>77,204</u> | <u>(9,795)</u> | <u>81,882</u> |
| TOTAL EXPENDITURES | <u>1,822,656</u> | <u>1,745,864</u> | <u>76,792</u> | <u>2,372,926</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>156,006</u> | <u>215,137</u> | <u>(59,131)</u> | <u>(412,024)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Loan proceeds | - | - | - | 550,000 |
| Operating transfers out | <u>(171,853)</u> | <u>(171,853)</u> | <u>-</u> | <u>(174,226)</u> |
| TOTAL OTHER FINANCING SOURCES (USES): | <u>(171,853)</u> | <u>(171,853)</u> | <u>-</u> | <u>375,774</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (15,847)</u> | 43,284 | <u>\$ (59,131)</u> | (36,250) |
| FUND BALANCE, BEGINNING OF YEAR | | <u>508,104</u> | | <u>544,354</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ 551,388</u> | | <u>\$ 508,104</u> |

CITY OF HANCOCK
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS

June 30, 2007

With Comparative Totals at June 30, 2006

| | Community | | | Totals | |
|--|------------------|-------------------|-------------------------|----------------------|-------------------|
| | Major Street | Local Street | Development Block Grant | Elevation Street TIF | (Memorandum Only) |
| | | | | | 2007 |
| | | | | | 2006 |
| ASSETS: | | | | | |
| Cash and cash equivalents | \$ 14,628 | \$ 2,244 | \$ 110,860 | \$ 50,789 | \$ 178,521 |
| Taxes receivable | - | 90,381 | - | 45 | 90,426 |
| Due from other funds | - | 60,000 | - | 39,000 | 99,000 |
| Due from other governmental units | 32,851 | 15,984 | - | - | 48,835 |
| Total assets | \$ 47,479 | \$ 168,609 | \$ 110,860 | \$ 89,834 | \$ 416,782 |
| | | | | | \$ 408,732 |
| LIABILITIES: | | | | | |
| Accounts payable | \$ - | \$ - | \$ 24,544 | \$ - | \$ 24,544 |
| Accrued expenses | 291 | 913 | - | - | 1,204 |
| Due to other funds | 109,663 | 236,451 | - | - | 346,114 |
| Total liabilities | 109,954 | 237,364 | 24,544 | - | 371,862 |
| | | | | | 223,233 |
| FUND EQUITY: | | | | | |
| Fund Balance - Reserved | - | (68,755) | 86,316 | - | 17,561 |
| Fund Balance - Unreserved | (62,475) | - | - | 89,834 | 27,359 |
| TOTAL FUND EQUITY | (62,475) | (68,755) | 86,316 | 89,834 | 44,920 |
| | | | | | 185,499 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 47,479 | \$ 168,609 | \$ 110,860 | \$ 89,834 | \$ 416,782 |
| | | | | | \$ 408,732 |

CITY OF HANCOCK
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

June 30, 2007

| | Community | | | | Totals | |
|--|--------------------|--------------------|------------------|------------------|------------------|------------------------|
| | Major Street | Local Street | Block Grant | Elevation | 2007 | (Memorandum Only) 2006 |
| REVENUES: | | | | | | |
| Current taxes | \$ - | \$ 90,380 | \$ - | \$ 23,102 | \$ 113,482 | \$ 106,959 |
| State and Federal revenue | 560,747 | 171,181 | 355,812 | - | 1,087,740 | 704,298 |
| Interest | 843 | 726 | - | 796 | 2,365 | 1,454 |
| Other revenue | 1,008 | 679 | 120,457 | - | 122,144 | 78,556 |
| Total revenues | <u>562,598</u> | <u>262,966</u> | <u>476,269</u> | <u>23,898</u> | <u>1,325,731</u> | <u>891,267</u> |
| EXPENDITURES: | | | | | | |
| General government administration | 32,208 | 6,436 | - | 60 | 38,704 | 46,392 |
| Highway and streets: | | | | | | |
| Construction | 217,628 | 88,730 | - | - | 306,358 | 31,991 |
| State trunkline maintenance | 212,980 | - | - | - | 212,980 | 219,533 |
| Routine maintenance | 22,297 | 146,599 | - | - | 168,896 | 140,355 |
| Traffic services | 14,359 | 6,011 | - | - | 20,370 | 26,828 |
| Snow and ice control | 148,622 | 163,161 | - | - | 311,783 | 327,622 |
| Sweeping and flushing | 695 | 3,325 | - | - | 4,020 | 3,399 |
| State grant expenditures | - | - | 485,740 | - | 485,740 | 35,270 |
| Total expenditures | <u>648,789</u> | <u>414,262</u> | <u>485,740</u> | <u>60</u> | <u>1,548,851</u> | <u>831,390</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | <u>(86,191)</u> | <u>(151,296)</u> | <u>(9,471)</u> | <u>23,838</u> | <u>(223,120)</u> | <u>59,877</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Operating transfers in | - | 82,541 | - | - | 82,541 | 103,107 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING U | <u>(86,191)</u> | <u>(68,755)</u> | <u>(9,471)</u> | <u>23,838</u> | <u>(140,579)</u> | <u>162,984</u> |
| FUND BALANCE, BEGINNING OF YEAR | <u>23,716</u> | <u>-</u> | <u>95,787</u> | <u>65,996</u> | <u>185,499</u> | <u>22,515</u> |
| FUND BALANCE, END OF YEAR | <u>\$ (62,475)</u> | <u>\$ (68,755)</u> | <u>\$ 86,316</u> | <u>\$ 89,834</u> | <u>\$ 44,920</u> | <u>\$ 185,499</u> |

CITY OF HANCOCK
MAJOR STREET FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year Ended June 30, 2007

With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|---------------------|--------------------|--------------------|------------------|
| REVENUES: | | | | |
| State and federal | \$ 471,439 | \$ 560,747 | \$ (89,308) | \$ 466,522 |
| Interest | 1,206 | 843 | 363 | 985 |
| Other revenue | 1,010 | 1,008 | 2 | 12,516 |
| TOTAL REVENUES | <u>473,655</u> | <u>562,598</u> | <u>(88,943)</u> | <u>480,023</u> |
| EXPENDITURES: | | | | |
| General government administration | <u>27,837</u> | <u>32,208</u> | <u>(4,371)</u> | <u>25,631</u> |
| Highway and streets: | | | | |
| Construction | 98,500 | 217,628 | (119,128) | 29,406 |
| State trunkline maintenance | 244,617 | 212,980 | 31,637 | 219,533 |
| Routine maintenance | 41,513 | 22,297 | 19,216 | 45,365 |
| Traffic services | 5,870 | 14,359 | (8,489) | 20,692 |
| Snow and ice control | 145,896 | 148,622 | (2,726) | 115,245 |
| Sweeping and flushing | 7,398 | 695 | 6,703 | 433 |
| Total highway and streets | <u>543,794</u> | <u>616,581</u> | <u>(72,787)</u> | <u>430,674</u> |
| TOTAL EXPENDITURES | <u>571,631</u> | <u>648,789</u> | <u>(77,158)</u> | <u>456,305</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>(97,976)</u> | <u>(86,191)</u> | <u>(11,785)</u> | <u>23,718</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers in | - | - | - | 28,263 |
| Operating transfers out | <u>(21,084)</u> | <u>-</u> | <u>21,084</u> | <u>-</u> |
| TOTAL OTHER FINANCING SOURCES (USES): | <u>(21,084)</u> | <u>-</u> | <u>(21,084)</u> | <u>28,263</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (119,060)</u> | <u>(86,191)</u> | <u>\$ (32,869)</u> | <u>51,981</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>23,716</u> | | <u>(28,265)</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ (62,475)</u> | | <u>\$ 23,716</u> |

CITY OF HANCOCK
LOCAL STREET FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2007
With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|---------------------|--------------------|---------------------|-----------------|
| REVENUES: | | | | |
| Taxes | \$ 91,800 | \$ 90,380 | \$ 1,420 | \$ 86,222 |
| State and federal | - | 171,181 | (171,181) | 172,661 |
| Income revenue | 241 | 726 | (485) | 412 |
| Other revenue | - | 679 | (679) | 590 |
| TOTAL REVENUES | <u>92,041</u> | <u>262,966</u> | <u>(170,925)</u> | <u>259,885</u> |
| EXPENDITURES: | | | | |
| General government administration | <u>5,940</u> | <u>6,436</u> | <u>(496)</u> | <u>6,445</u> |
| Highway and streets: | | | | |
| Construction | 71,800 | 88,730 | (16,930) | 2,585 |
| Routine maintenance | 146,599 | 146,599 | - | 94,990 |
| Traffic services | 6,600 | 6,011 | 589 | 6,136 |
| Snow and ice control | 165,500 | 163,161 | 2,339 | 212,377 |
| Sweeping and flushing | <u>11,018</u> | <u>3,325</u> | <u>7,693</u> | <u>2,966</u> |
| Total highway and streets | <u>401,517</u> | <u>407,826</u> | <u>(6,309)</u> | <u>319,054</u> |
| TOTAL EXPENDITURES | <u>407,457</u> | <u>414,262</u> | <u>(6,805)</u> | <u>325,499</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>(315,416)</u> | <u>(151,296)</u> | <u>(164,120)</u> | <u>(65,614)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers in | <u>103,625</u> | <u>82,541</u> | <u>21,084</u> | <u>74,844</u> |
| TOTAL OTHER FINANCING SOURCES (USES): | <u>103,625</u> | <u>82,541</u> | <u>21,084</u> | <u>74,844</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (211,791)</u> | <u>(68,755)</u> | <u>\$ (143,036)</u> | <u>9,230</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>-</u> | | <u>(9,230)</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ (68,755)</u> | | <u>\$ -</u> |

CITY OF HANCOCK
COMMUNITY DEVELOPMENT BLOCK GRANT FUND-M2000-0657 (NPP)
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2007
With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>Budget</u> | <u>2007</u> | <u>Variance</u> | <u>2006</u> |
|--|------------------|------------------|------------------|------------------|
| REVENUES: | | | | |
| Federal grant | \$ 356,000 | \$ 355,812 | \$ 188 | \$ 65,115 |
| Other revenue | <u>120,000</u> | <u>120,457</u> | <u>(457)</u> | <u>65,450</u> |
| TOTAL REVENUES | <u>476,000</u> | <u>476,269</u> | <u>(269)</u> | <u>130,565</u> |
| EXPENDITURES: | | | | |
| Administration | 21,861 | 65,543 | (43,682) | 35,270 |
| Construction | <u>365,000</u> | <u>420,197</u> | <u>(55,197)</u> | <u>-</u> |
| TOTAL EXPENDITURES | <u>386,861</u> | <u>485,740</u> | <u>(98,879)</u> | <u>35,270</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>89,139</u> | <u>(9,471)</u> | <u>98,610</u> | <u>95,295</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers in | - | - | - | 52 |
| TOTAL OTHER FINANCING SOURCES (USES): | <u>-</u> | <u>-</u> | <u>-</u> | <u>52</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ 89,139</u> | <u>(9,471)</u> | <u>\$ 98,610</u> | <u>95,347</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>95,787</u> | | <u>440</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ 86,316</u> | | <u>\$ 95,787</u> |

CITY OF HANCOCK
ELEVATION STREET TIFA
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2007
With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|--------------------|------------------|--------------------|------------------|
| REVENUES: | | | | |
| Taxes | \$ (23,102) | \$ 23,102 | \$ (46,204) | \$ 20,737 |
| Interest | <u>(710)</u> | <u>796</u> | <u>(1,506)</u> | <u>57</u> |
| TOTAL REVENUES | <u>(23,812)</u> | <u>23,898</u> | <u>(47,710)</u> | <u>20,794</u> |
| EXPENDITURES: | | | | |
| General government administration | <u>-</u> | <u>60</u> | <u>(60)</u> | <u>14,316</u> |
| TOTAL EXPENDITURES | <u>-</u> | <u>60</u> | <u>(60)</u> | <u>14,316</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (23,812)</u> | <u>23,838</u> | <u>\$ (47,650)</u> | <u>6,478</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>65,996</u> | | <u>59,518</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ 89,834</u> | | <u>\$ 65,996</u> |

CITY OF HANCOCK
DEBT SERVICE (BUILDING AUTHORITY) FUND
BALANCE SHEETS

June 30, 2007

With Comparative Totals at June 30, 2006

| | <u>2007</u> | <u>2006</u> |
|--------------------|-----------------|-----------------|
| ASSETS: | | |
| Cash | \$ <u>1,760</u> | \$ <u>1,749</u> |
| FUND BALANCES: | | |
| Reserved | \$ <u>1,760</u> | \$ <u>1,749</u> |

CITY OF HANCOCK
DEBT SERVICE (BUILDING AUTHORITY) FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2007
With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|---------------|-----------------|-----------------|-----------------|
| REVENUES: | | | | |
| Rental income | \$ 98,800 | \$ 97,220 | \$ 1,580 | \$ 98,706 |
| Interest income | 241 | 9 | 232 | 16 |
| TOTAL REVENUES | <u>99,041</u> | <u>97,229</u> | <u>1,812</u> | <u>98,722</u> |
| EXPENDITURES: | | | | |
| Bond principal | 31,000 | 31,000 | - | 31,000 |
| Bond interest and other expense | 67,800 | 66,220 | 1,580 | 67,705 |
| Miscellaneous | 50 | (2) | 52 | - |
| TOTAL EXPENDITURES | <u>98,850</u> | <u>97,218</u> | <u>1,632</u> | <u>98,705</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ 191</u> | 11 | <u>\$ 180</u> | 17 |
| FUND BALANCE, BEGINNING OF YEAR | | <u>1,749</u> | | <u>1,732</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ 1,760</u> | | <u>\$ 1,749</u> |

CITY OF HANCOCK
RESIDENTIAL CAPITAL PROJECTS
BALANCE SHEETS
June 30, 2007
With Comparative Totals at June 30, 2006

| | <u>2007</u> | <u>2006</u> |
|-------------------------------------|------------------|------------------|
| ASSETS: | | |
| Cash | \$ 13,147 | \$ 34,977 |
| TOTAL ASSETS | <u>\$ 13,147</u> | <u>\$ 34,977</u> |
| LIABILITIES: | | |
| Accounts payable | \$ - | \$ 1,775 |
| Accrued expenses | 831 | |
| Due to other funds | <u>10,330</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>11,161</u> | <u>1,775</u> |
| FUND BALANCES: | | |
| Unreserved | <u>1,986</u> | <u>33,202</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 13,147</u> | <u>\$ 34,977</u> |

CITY OF HANCOCK
RESIDENTIAL CAPITAL PROJECTS
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2007
With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|--------------------|-----------------|------------------|------------------|
| REVENUES: | | | | |
| Other revenue: | | | | |
| Lot sales | \$ 81,600 | \$ 33,000 | \$ 48,600 | \$ 50,051 |
| Interest | 500 | 415 | 85 | 214 |
| TOTAL REVENUES | <u>82,100</u> | <u>33,415</u> | <u>48,685</u> | <u>50,265</u> |
| EXPENDITURES: | | | | |
| General government administration | 20,100 | 16,487 | 3,613 | 2,125 |
| Construction | <u>78,280</u> | <u>48,144</u> | <u>30,136</u> | <u>34,614</u> |
| TOTAL EXPENDITURES | <u>98,380</u> | <u>64,631</u> | <u>33,749</u> | <u>36,739</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>(16,280)</u> | <u>(31,216)</u> | <u>14,936</u> | <u>13,526</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (16,280)</u> | <u>(31,216)</u> | <u>\$ 14,936</u> | <u>13,526</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>33,202</u> | | <u>19,676</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ 1,986</u> | | <u>\$ 33,202</u> |

**CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEETS**
June 30, 2007

With Comparative Totals at June 30, 2006

| | Parking Meter | Transit | Sewer Disposal System | Water Supply System | Totals (Memorandum Only) |
|---|------------------|-----------|-----------------------------|---------------------------|-----------------------------|
| | | | | | 2007 |
| | | | | | 2006 |
| ASSETS: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 3,116 | \$ 8,095 | \$ 41,254 | \$ 15,284 | \$ 67,749 |
| Restricted cash | - | - | 13,021 | 94,325 | 107,346 |
| Restricted investments | - | - | 140,217 | 96,817 | 237,034 |
| Accounts receivable | 80 | 40 | 70,517 | 60,045 | 130,682 |
| Due from other funds | - | - | - | - | 8 |
| Due from other government | - | - | - | - | 8,473 |
| Inventory | - | - | 25,843 | 56,598 | 82,441 |
| Prepaid expenses | - | 2,108 | - | - | 2,108 |
| Total current assets | 3,196 | 10,243 | 290,852 | 323,069 | 627,360 |
| | | | | | 595,759 |
| Property, plant, and equipment | 30,893 | 89,117 | 5,787,904 | 5,681,267 | 11,589,181 |
| Accumulated depreciation & amortization | (30,893) | (83,207) | (4,544,326) | (3,295,055) | (7,953,481) |
| | - | 5,910 | 1,243,578 | 2,386,212 | 3,635,700 |
| TOTAL ASSETS | \$ 3,196 | \$ 16,153 | \$ 1,534,430 | \$ 2,709,281 | \$ 4,263,060 |
| | | | | | \$ 4,454,926 |

CITY OF HANCOCK
ENTERPRISE FUNDS
BALANCE SHEETS (CONTINUED)
June 30, 2007

With Comparative Totals at June 30, 2006

| | Parking Meter | Transit | Sewer Disposal System | Water Supply System | Totals (Memorandum Only) |
|--|------------------|-----------|-----------------------------|---------------------------|-----------------------------|
| | | | | | 2007 |
| | | | | | 2006 |
| LIABILITIES: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ - | \$ - | 2,497 | \$ - | \$ 2,497 |
| Accrued expenses | 275 | 1,470 | 829 | 564 | 3,138 |
| Due to other funds | 26 | 20,000 | 63,745 | 494,894 | 578,665 |
| Due to other governmental units | - | - | 8,531 | - | 8,531 |
| Current maturities on long term debt | - | - | 10,000 | 25,000 | 35,000 |
| Total current liabilities | 301 | 21,470 | 85,602 | 520,458 | 627,831 |
| | | | | | 27,000 |
| | | | | | 649,182 |
| Long-term liabilities: | | | | | |
| Bonds payable | - | - | 65,000 | 1,567,562 | 1,632,562 |
| | | | | | 1,667,562 |
| TOTAL LIABILITIES | 301 | 21,470 | 150,602 | 2,088,020 | 2,260,393 |
| | | | | | 2,316,744 |
| FUND EQUITY: | | | | | |
| Retained earnings: | | | | | |
| Reserved | - | - | 153,238 | 189,778 | 343,016 |
| Unreserved | 2,895 | (5,317) | 1,230,590 | 431,483 | 1,659,651 |
| Total retained earnings | 2,895 | (5,317) | 1,383,828 | 621,261 | 2,002,667 |
| TOTAL FUND EQUITY | 2,895 | (5,317) | 1,383,828 | 621,261 | 2,002,667 |
| | | | | | 2,138,182 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 3,196 | \$ 16,153 | \$ 1,534,430 | \$ 2,709,281 | \$ 4,263,060 |
| | | | | | \$ 4,454,926 |

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

June 30, 2007

| | Parking Meter | Transit | Sewer Fund | Water Fund | Totals (Memorandum Only) |
|--|------------------|-------------------|---------------------|-------------------|-----------------------------|
| | | | | | 2006 |
| OPERATING REVENUES: | | | | | |
| Sales and charges for services | \$ 12,531 | \$ 35,448 | \$ 619,864 | \$ 532,470 | \$ 1,186,621 |
| State Grant | - | 54,379 | - | - | 54,379 |
| Federal Grant | - | 24,886 | - | - | 24,886 |
| Other revenue | - | 20,644 | - | 10,339 | 30,983 |
| TOTAL OPERATING REVENUES | 12,531 | 135,357 | 619,864 | 542,809 | 1,268,645 |
| OPERATING EXPENSES: | | | | | |
| General administration | 19,877 | 17,364 | 35,144 | 85,057 | 142,736 |
| Meter reading | - | - | 9,258 | 9,298 | 18,556 |
| Purchase of services | - | - | 451,187 | 172,266 | 623,453 |
| Operations and maintenance | - | 125,926 | 83,577 | 240,036 | 449,539 |
| Depreciation | - | 17,639 | 99,395 | 106,432 | 223,466 |
| TOTAL OPERATING EXPENSES | 19,877 | 160,929 | 678,561 | 613,089 | 1,472,456 |
| OPERATING INCOME (LOSS) | (7,346) | (25,572) | (58,697) | (70,280) | (201,866) |
| NON-OPERATING REVENUES (EXPENSES): | | | | | |
| Interest income | 39 | 255 | 7,329 | 5,900 | 13,523 |
| Interest expense | - | - | (4,250) | (72,205) | (76,455) |
| Operating transfers in | 14,925 | 31,387 | - | 43,000 | 89,312 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 14,964 | 31,642 | 3,079 | (23,305) | 2,325 |
| NET INCOME (LOSS) | 7,618 | 6,070 | (55,618) | (93,585) | (199,541) |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF THE YEAR | (4,723) | (11,387) | 1,439,446 | 714,846 | 2,331,233 |
| ADJUSTMENTS TO FUND EQUITY: | | | | | |
| Add depreciation on fixed assets acquired with contributed capital | - | - | - | - | 6,490 |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | \$ 2,895 | \$ (5,317) | \$ 1,383,828 | \$ 621,261 | \$ 2,138,182 |

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2007

| | Parking Meter Fund | Transit Fund | Sewer System | Water System | Total |
|---|-----------------------|-----------------|-----------------|-----------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | \$ 12,542 | \$ 134,737 | \$ 618,864 | \$ 532,368 | \$ 1,298,511 |
| Payments to suppliers | (1,716) | (42,863) | (474,504) | (302,664) | (821,747) |
| Internal activity -- receipts (payments) to other funds | (7,742) | (24,504) | (48,550) | (130,886) | (211,682) |
| Payments to employees | (10,314) | (78,605) | (41,935) | (93,887) | (224,741) |
| Other receipts (payments) | 0 | 644 | 0 | 10,339 | 10,983 |
| Net cash provided by operating activities | (7,230) | (10,591) | 53,875 | 15,270 | 51,324 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Operating subsidies and transfers to other funds | 8,278 | 10,963 | (31,258) | 83,087 | 71,070 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Capital contributions | 0 | 0 | 0 | 0 | 0 |
| Purchases of capital assets | 0 | 0 | 0 | 0 | 0 |
| Sale of capital assets | 0 | 0 | 0 | 0 | 0 |
| Principal paid on capital debt | 0 | 0 | (10,000) | (17,000) | (27,000) |
| Interest paid on capital debt | 0 | 0 | (4,250) | (72,205) | (76,455) |
| Net cash (used) by capital and related financing activities | 0 | 0 | (14,250) | (89,205) | (103,455) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchases of investments | 0 | 0 | (6,023) | (22,122) | (28,145) |
| Interest and dividends | 39 | 255 | 7,329 | 5,900 | 13,523 |
| Net cash provided by investing activities | 39 | 255 | 1,306 | (16,222) | (14,622) |
| Net (decrease) in cash and cash equivalents | 1,087 | 627 | 9,673 | (7,070) | 4,317 |
| Balances -- beginning of the year | 2,029 | 7,468 | 44,602 | 116,679 | 170,778 |
| Balances -- end of the year | \$ 3,116 | \$ 8,095 | \$ 54,275 | \$ 109,609 | \$ 175,095 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | \$ (7,346) | \$ (25,572) | \$ (58,697) | \$ (70,280) | (161,895) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | |
| Depreciation expense | 0 | 17,639 | 99,395 | 106,432 | 223,466 |
| Change in assets and liabilities | | | | | |
| Receivables, net | 8 | 24 | (1,000) | (102) | (1,070) |
| Due from other governmental units | 0 | 0 | 8,473 | 0 | 8,473 |
| Inventory | 0 | 0 | (2,802) | (4,383) | (7,185) |
| Prepaid expenses | 0 | (7) | | 650 | 643 |
| Accounts and other payables | 0 | (2,707) | (319) | (3,658) | (6,684) |
| Due to other governmental | 0 | 0 | 8,531 | (14,016) | (5,485) |
| Accrued expenses | 108 | 32 | 294 | 627 | 1,061 |
| Net cash provided by operating activities | \$ (7,230) | \$ (10,591) | \$ 53,875 | \$ 15,270 | \$ 51,324 |

CITY OF HANCOCK
PARKING METER FUND
BALANCE SHEETS

June 30, 2007

With Comparative Totals at June 30, 2006

| | <u>2007</u> | <u>2006</u> |
|--|------------------------|------------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,116 | \$ 2,029 |
| Accounts receivable | 80 | 88 |
| Fixed Assets: | | |
| Equipment | 30,893 | 30,893 |
| Less accumulated depreciation & amortization | <u>(30,893)</u> | <u>(30,893)</u> |
| TOTAL ASSETS | <u>\$ 3,196</u> | <u>\$ 2,117</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Accrued wages payable | 275 | 170 |
| Due to other funds | <u>26</u> | <u>6,670</u> |
| TOTAL LIABILITIES | <u>301</u> | <u>6,840</u> |
| FUND EQUITY: | | |
| Retained Earnings | <u>2,895</u> | <u>(4,723)</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 3,196</u> | <u>\$ 2,117</u> |

CITY OF HANCOCK
PARKING METER FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2007
With Comparative Actual Amounts for Year ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|---------------|---------------|-----------------|-------------|
| OPERATING REVENUES: | | | | |
| Charges for services: | \$ 12,700 | \$ 12,531 | \$ 169 | \$ 10,544 |
| OPERATING EXPENSES: | | | | |
| General administration | 20,877 | 19,877 | 1,000 | 20,408 |
| TOTAL OPERATING EXPENSES | 20,877 | 19,877 | 1,000 | 20,408 |
| OPERATING INCOME (LOSS) | (8,177) | (7,346) | (831) | (9,864) |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Interest income | 50 | 39 | 11 | 41 |
| Operating transfers in | 14,925 | 14,925 | - | 8,385 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 14,975 | 14,964 | 11 | 8,426 |
| NET INCOME (LOSS) | \$ 6,798 | 7,618 | \$ (820) | (1,438) |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | (4,723) | | (3,285) |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | \$ 2,895 | | \$ (4,723) |

CITY OF HANCOCK
SEWER DISPOSAL SYSTEM FUND
BALANCE SHEETS

June 30, 2007

With Comparative Totals at June 30, 2006

| | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|
| ASSETS: | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 41,254 | \$ 31,632 |
| Accounts Receivable | 70,517 | 69,517 |
| Due from other government | - | 8,473 |
| Inventory | 25,843 | 23,041 |
| Restricted Assets: | | |
| Investments | 140,217 | 134,194 |
| Cash | 13,021 | 12,970 |
| Fixed Assets: | | |
| Utility plant in service | 5,787,904 | 5,787,904 |
| Less accumulated depreciation & amortization | <u>(4,544,326)</u> | <u>(4,444,931)</u> |
| TOTAL ASSETS: | <u>\$ 1,534,430</u> | <u>\$ 1,622,800</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Accounts payable | \$ 2,497 | \$ 2,816 |
| Accrued expenses | 829 | 535 |
| Due to other funds | 63,745 | 95,003 |
| Due to other governmental units | 8,531 | - |
| Current maturities on long-term debt | 10,000 | 10,000 |
| Long-term Liabilities: | | |
| Revenue bonds payable | <u>65,000</u> | <u>75,000</u> |
| TOTAL LIABILITIES | <u>150,602</u> | <u>183,354</u> |
| FUND EQUITY: | | |
| Retained Earnings: | | |
| Reserved | 153,238 | 147,164 |
| Unreserved | <u>1,230,590</u> | <u>1,292,282</u> |
| TOTAL FUND EQUITY | <u>1,383,828</u> | <u>1,439,446</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 1,534,430</u> | <u>\$ 1,622,800</u> |

CITY OF HANCOCK
SEWER DISPOSAL SYSTEM FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2007
With Comparative Totals for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|-------------------|---------------------|-------------------|---------------------|
| OPERATING REVENUES: | | | | |
| Charges for services | \$ 645,346 | \$ 619,864 | \$ 25,482 | \$ 628,587 |
| Other revenue | <u>120</u> | <u>-</u> | <u>120</u> | <u>1</u> |
| TOTAL OPERATING REVENUES | <u>645,466</u> | <u>619,864</u> | <u>25,602</u> | <u>628,588</u> |
| OPERATING EXPENSES: | | | | |
| General administration | - | 35,144 | (35,144) | 33,588 |
| Meter reading | - | 9,258 | (9,258) | 8,998 |
| Operations and maintenance | - | 83,577 | (83,577) | 105,682 |
| Share of Portage Lake W & S Auth plant expense | - | 451,187 | (451,187) | 409,751 |
| Depreciation | <u>-</u> | <u>99,395</u> | <u>(99,395)</u> | <u>99,395</u> |
| TOTAL OPERATING EXPENSES | <u>-</u> | <u>678,561</u> | <u>(678,561)</u> | <u>657,414</u> |
| OPERATING INCOME (LOSS) | 645,466 | (58,697) | 704,163 | (28,826) |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Interest income | 6,500 | 7,329 | (829) | 5,095 |
| Interest expense | - | (4,250) | 4,250 | (4,750) |
| Operating transfers out | - | - | - | - |
| Operating transfers in | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>6,500</u> | <u>3,079</u> | <u>3,421</u> | <u>345</u> |
| NET INCOME (LOSS) | <u>\$ 651,966</u> | <u>(55,618)</u> | <u>\$ 707,584</u> | <u>(28,481)</u> |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>1,439,446</u> | | <u>1,467,927</u> |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ 1,383,828</u> | | <u>\$ 1,439,446</u> |

CITY OF HANCOCK
WATER SUPPLY SYSTEM FUND
BALANCE SHEETS
June 30, 2007
With Comparative Totals at June 30, 2006

| | <u>2007</u> | <u>2006</u> |
|--|----------------------------|----------------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 15,284 | \$ 4,936 |
| Accounts receivable | 60,045 | 59,943 |
| Inventory | 56,598 | 52,215 |
| Prepaid expenses | - | 650 |
| Restricted Assets: | | |
| Restricted cash | 94,325 | 93,719 |
| Restricted investments | 96,817 | 92,719 |
| Fixed Assets: | | |
| Property, plant, and equipment | 5,681,267 | 5,681,268 |
| Accumulated depreciation & amortization | <u>(3,295,055)</u> | <u>(3,188,623)</u> |
| TOTAL ASSETS | <u>\$ 2,709,281</u> | <u>\$ 2,796,827</u> |
| LIABILITIES: | | |
| Current liabilities: | | |
| Accounts payable | \$ - | \$ 3,658 |
| Accrued expenses | 564 | (63) |
| Due to other funds | 494,894 | 454,808 |
| Due to other governmental units | - | 14,016 |
| Current maturities on long term debt | 25,000 | 17,000 |
| Long-term liabilities: | | |
| Revenue bonds payable | <u>1,567,562</u> | <u>1,592,562</u> |
| TOTAL LIABILITIES | <u>2,088,020</u> | <u>2,081,981</u> |
| FUND EQUITY: | | |
| Retained Earnings: | | |
| Reserved | 189,778 | 186,438 |
| Unreserved | <u>431,483</u> | <u>528,408</u> |
| TOTAL FUND EQUITY | <u>621,261</u> | <u>714,846</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 2,709,281</u> | <u>\$ 2,796,827</u> |

CITY OF HANCOCK
WATER SUPPLY SYSTEM FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2007
With Comparative Actual Amounts for Year Ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|------------------|-------------------|-------------------|-------------------|
| OPERATING REVENUES: | | | | |
| Sales and charges for services | \$ 536,032 | \$ 532,470 | \$ 3,562 | \$ 519,744 |
| Other revenue | <u>11,206</u> | <u>10,339</u> | <u>867</u> | <u>1,445</u> |
| TOTAL OPERATING REVENUES | <u>547,238</u> | <u>542,809</u> | <u>4,429</u> | <u>521,189</u> |
| OPERATING EXPENSES: | | | | |
| General administration | 84,814 | 85,057 | (243) | 72,805 |
| Meter reading | 9,206 | 9,298 | (92) | 9,011 |
| Purchase of Water | 185,000 | 172,266 | 12,734 | 179,539 |
| Operations and maintenance | 208,623 | 240,036 | (31,413) | 253,307 |
| Depreciation | <u>-</u> | <u>106,432</u> | <u>(106,432)</u> | <u>106,432</u> |
| TOTAL OPERATING EXPENSES | <u>487,643</u> | <u>613,089</u> | <u>(125,446)</u> | <u>621,094</u> |
| OPERATING INCOME (LOSS) | 59,595 | (70,280) | 129,875 | (99,905) |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Interest income | 8,500 | 5,900 | 2,600 | 3,598 |
| Interest expense | (89,633) | (72,205) | (17,428) | (72,948) |
| Operating transfers in | <u>43,000</u> | <u>43,000</u> | <u>-</u> | <u>43,373</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>(38,133)</u> | <u>(23,305)</u> | <u>(14,828)</u> | <u>(25,977)</u> |
| NET INCOME (LOSS) | <u>\$ 21,462</u> | <u>(93,585)</u> | <u>\$ 115,047</u> | <u>(125,882)</u> |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | 714,846 | | 834,238 |
| ADJUSTMENTS TO FUND EQUITY: | | | | |
| Add depreciation on fixed assets acquired with new capital | | <u>-</u> | | <u>6,490</u> |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ 621,261</u> | | <u>\$ 714,846</u> |

CITY OF HANCOCK
TRANSIT FUND
BALANCE SHEETS

June 30, 2007

With Comparative Totals at June 30, 2006

| | <u>2007</u> | <u>2006</u> |
|--|------------------|------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash | \$ 8,095 | \$ 7,468 |
| Accounts receivable | 40 | 64 |
| Prepaid Expenses | 2,108 | 2,101 |
| Fixed Assets: | | |
| Utility plant in service | 89,117 | 89,117 |
| Accumulated depreciation & amortization | <u>(83,207)</u> | <u>(65,568)</u> |
| TOTAL ASSETS | <u>\$ 16,153</u> | <u>\$ 33,182</u> |
| LIABILITIES: | | |
| Current liabilities: | | |
| Accounts payable | \$ - | \$ 2,707 |
| Accrued expenses | 1,470 | 1,438 |
| Due to other funds | <u>20,000</u> | <u>40,424</u> |
| TOTAL LIABILITIES | <u>21,470</u> | <u>44,569</u> |
| FUND EQUITY: | | |
| Retained earnings: | <u>(5,317)</u> | <u>(11,387)</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 16,153</u> | <u>\$ 33,182</u> |

CITY OF HANCOCK
TRANSIT FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2007
With Comparative Totals at June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|-------------------|-------------------|--------------------|--------------------|
| OPERATING REVENUES: | | | | |
| Sales and charges for services | \$ 31,000 | \$ 35,448 | \$ (4,448) | \$ 27,746 |
| State grant | 55,590 | 54,379 | 1,211 | 51,850 |
| Federal grant | 22,114 | 24,886 | (2,772) | 27,230 |
| Other revenue | <u>2,000</u> | <u>20,644</u> | <u>(18,644)</u> | <u>1,498</u> |
| TOTAL OPERATING REVENUES | <u>110,704</u> | <u>135,357</u> | <u>(24,653)</u> | <u>108,324</u> |
| OPERATING EXPENSES: | | | | |
| General administration | 16,028 | 17,364 | (1,336) | 15,935 |
| Operations and maintenance | 131,828 | 125,926 | 5,902 | 138,021 |
| Depreciation | <u>-</u> | <u>17,639</u> | <u>(17,639)</u> | <u>17,639</u> |
| TOTAL OPERATING EXPENSES | <u>147,856</u> | <u>160,929</u> | <u>(13,073)</u> | <u>171,595</u> |
| OPERATING INCOME (LOSS) | (37,152) | (25,572) | (11,580) | (63,271) |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Interest income | 200 | 255 | (55) | 170 |
| Operating transfers in | <u>31,387</u> | <u>31,387</u> | <u>-</u> | <u>19,361</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>31,587</u> | <u>31,642</u> | <u>(55)</u> | <u>19,531</u> |
| NET INCOME (LOSS) | <u>\$ (5,565)</u> | 6,070 | <u>\$ (11,635)</u> | (43,740) |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>(11,387)</u> | | <u>32,353</u> |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ (5,317)</u> | | <u>\$ (11,387)</u> |

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEETS

June 30, 2007

With Comparative Totals at June 30, 2006

| | Employee Benefit | Motor Vehicle | Totals (Memorandum Only) | |
|--|---------------------|-------------------|-----------------------------|-------------------|
| | | | 2007 | 2006 |
| ASSETS: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 39,612 | \$ 350 | \$ 39,962 | \$ 36,733 |
| Restricted cash | 1,656 | - | 1,656 | 3,612 |
| Accounts receivable | 13,325 | 1,142 | 14,467 | 17,391 |
| Due from other funds | 144,695 | 504,096 | 648,791 | 530,552 |
| Inventory | - | 26,709 | 26,709 | 13,354 |
| Prepaid expenses | 42,628 | 18,611 | 61,239 | 60,948 |
| Total current assets | 241,916 | 550,908 | 792,824 | 662,590 |
| Fixed Assets: | | | | |
| Equipment | - | 1,570,752 | 1,570,752 | 1,610,670 |
| Accumulated depreciation & amortization | - | (1,390,905) | (1,390,905) | (1,335,517) |
| Total Fixed Assets | - | 179,847 | 179,847 | 275,153 |
| TOTAL ASSETS | \$ 241,916 | \$ 730,755 | \$ 972,671 | \$ 937,743 |
| LIABILITIES: | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 9,181 | \$ - | \$ 9,181 | \$ 14,291 |
| Due to other funds | - | - | - | 3,026 |
| Accrued sick and vacation | 159,350 | - | 159,350 | 157,437 |
| Accrued wages payable | 5,894 | 718 | 6,612 | 7,085 |
| Total current liabilities | 174,425 | 718 | 175,143 | 181,839 |
| Long-term liabilities: | | | | |
| TOTAL LIABILITIES | 174,425 | 718 | 175,143 | 181,839 |
| FUND EQUITY: | | | | |
| Retained earnings: | | | | |
| Reserved | 1,656 | - | 1,656 | 3,612 |
| Unreserved | 65,835 | 566,021 | 631,856 | 516,592 |
| Total retained earnings | 67,491 | 566,021 | 633,512 | 520,204 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 241,916 | \$ 566,739 | \$ 808,655 | \$ 702,043 |

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year ended June 30, 2007
With Comparative Totals for Year ended June 30, 2006

| | Employee Benefit | Motor Vehicle | Totals | |
|---|---------------------|-------------------|-------------------|-------------------|
| | | | 2007 | 2006 |
| OPERATING REVENUES: | | | | |
| Charges for services | \$ 744,543 | \$ 539,033 | \$ 1,283,576 | \$ 1,273,137 |
| Other revenue | 46,839 | 1,367 | 48,206 | 103,248 |
| TOTAL OPERATING REVENUES | 791,382 | 540,400 | 1,331,782 | 1,376,385 |
| OPERATING EXPENSES: | | | | |
| General government administration | 834 | 25,981 | 26,815 | 27,924 |
| Garage maintenance | - | 105,334 | 105,334 | 103,289 |
| Operations and maintenance | - | 203,838 | 203,838 | 202,751 |
| Depreciation | - | 102,806 | 102,806 | 103,767 |
| Benefit payments: | | | | |
| Payroll taxes | 102,004 | - | 102,004 | 105,917 |
| Retirement plan expense | 100,688 | - | 100,688 | 88,370 |
| Holiday pay | 33,305 | - | 33,305 | 35,088 |
| Sick pay/personal leave | 29,478 | - | 29,478 | 47,038 |
| Vacation pay | 71,580 | - | 71,580 | 73,012 |
| Workers' compensation insurance | 64,361 | - | 64,361 | 60,819 |
| Hospitalization insurance | 340,727 | - | 340,727 | 387,854 |
| Employee life insurance | 6,270 | - | 6,270 | 6,871 |
| Longevity pay | 17,696 | - | 17,696 | 17,200 |
| Employee picnic | 600 | - | 600 | 600 |
| Other | - | - | - | 4,370 |
| TOTAL OPERATING EXPENSES | 767,543 | 437,959 | 1,205,502 | 1,264,870 |
| OPERATING INCOME (LOSS) | 23,839 | 102,441 | 126,280 | 111,515 |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Gain on sale of assets | - | 50 | 50 | 35,745 |
| Interest income | 814 | 286 | 1,100 | 788 |
| Interest expense | - | (14,122) | 14,122 | (7,753) |
| Operating transfers out | - | - | - | - |
| Operating transfers in | - | - | - | - |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 814 | (13,786) | (12,972) | 28,780 |
| NET INCOME (LOSS) | 24,653 | 88,655 | 113,308 | 140,295 |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | 42,838 | 477,366 | 520,204 | 379,909 |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | \$ 67,491 | \$ 566,021 | \$ 633,512 | \$ 520,204 |

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2007

| | Employee Benefit | Motor Vehicle | Total |
|---|---------------------|------------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 0 | \$ 0 | \$ 0 |
| Payments to suppliers | -768,314 | -287,655 | -1,055,969 |
| Internal activity – receipts (payments) to other funds | 744,543 | 509,631 | 1,254,174 |
| Payments to employees | 998 | -35,639 | -34,641 |
| Other receipts (payments) | 49,763 | 1,367 | 51,130 |
| Net cash provided by operating activities | 26,990 | 187,704 | 214,694 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating subsidies and transfers to other funds | -4,178 | -117,087 | -121,265 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Capital Contributions | 0 | 0 | 0 |
| Purchases of capital assets | 0 | -7,500 | -7,500 |
| Sale of capital assets | 0 | 50 | 50 |
| Principal paid on capital debt | 0 | -71,684 | -71,684 |
| Interest paid on capital debt | 0 | -14,122 | -14,122 |
| Net cash (used) by capital and related financing activities | 0 | -93,256 | -93,256 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of investments | 0 | 0 | 0 |
| Interest and dividends | 814 | 286 | 1,100 |
| Net cash provided by investing activities | 814 | 286 | 1,100 |
| Net (decrease) in cash and cash equivalents | 23,626 | -22,353 | 1,273 |
| Balances – beginning of the year | 17,642 | 22,703 | 40,345 |
| Balances – end of the year | \$ 41,268 | \$ 350 | \$ 41,618 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ 23,839 | \$ 102,441 | \$ 126,280 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 0 | 102,806 | 102,806 |
| Change in assets and liabilities | | | |
| Receivables, net | 2,924 | 0 | 2,924 |
| Due from other governmental units | 0 | 0 | 0 |
| Inventory | 0 | -13,355 | -13,355 |
| Prepaid expenses | -592 | 301 | -291 |
| Accounts and other payables | -179 | -4,931 | -5,110 |
| Due to other governmental units | 0 | 0 | 0 |
| Accrued expenses | 998 | 442 | 1,440 |
| Net cash provided by operating activities | \$ 26,990 | \$ 187,704 | \$ 214,694 |

CITY OF HANCOCK
EMPLOYEE BENEFIT FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2007
With Comparative Actual Amounts for Year ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|------------------|------------------|------------------|------------------|
| OPERATING REVENUES: | | | | |
| Charges for services | \$ 817,280 | \$ 744,543 | \$ 72,737 | \$ 762,893 |
| Other revenue | <u>38,603</u> | <u>46,839</u> | <u>(8,236)</u> | <u>98,631</u> |
| TOTAL OPERATING REVENUES | <u>855,883</u> | <u>791,382</u> | <u>64,501</u> | <u>861,524</u> |
| EXPENSES: | | | | |
| General government administration | 2,006 | 834 | 1,172 | 2,263 |
| Benefit payments: | | | | |
| Payroll taxes | 105,181 | 102,004 | 3,177 | 105,917 |
| Retirement plan expense | 107,100 | 100,688 | 6,412 | 88,370 |
| Holiday pay | 33,813 | 33,305 | 508 | 35,088 |
| Sick pay/personal leave | 37,454 | 29,478 | 7,976 | 47,038 |
| Vacation pay | 70,747 | 71,580 | (833) | 73,012 |
| Workers' compensation insurance | 51,000 | 64,361 | (13,361) | 60,819 |
| Hospitalization insurance | 342,500 | 340,727 | 1,773 | 387,854 |
| Employee life insurance | 6,000 | 6,270 | (270) | 6,871 |
| Longevity pay | 17,697 | 17,696 | 1 | 17,200 |
| Employee picnic | 724 | 600 | 124 | 600 |
| Other | <u>4,344</u> | | <u>4,344</u> | <u>4,370</u> |
| TOTAL OPERATING EXPENSES | <u>778,566</u> | <u>767,543</u> | <u>11,023</u> | <u>829,402</u> |
| OPERATING INCOME (LOSS) | 77,317 | 23,839 | 53,478 | 32,122 |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Gain on sale of assets | - | - | - | - |
| Interest income | 700 | 814 | (114) | 544 |
| Interest expense | - | - | - | - |
| Operating transfers out | - | - | - | - |
| Operating transfers in | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>700</u> | <u>814</u> | <u>(114)</u> | <u>544</u> |
| NET INCOME (LOSS) | <u>\$ 78,017</u> | 24,653 | <u>\$ 53,364</u> | 32,666 |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>42,838</u> | | <u>10,172</u> |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ 67,491</u> | | <u>\$ 42,838</u> |

CITY OF HANCOCK
MOTOR VEHICLE FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2007
With Comparative Totals for Year ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|------------------|-------------------|-------------------|-------------------|
| OPERATING REVENUES: | | | | |
| Charges for services | \$ 511,463 | \$ 539,033 | \$ 1,050,496 | \$ 510,244 |
| Other revenue | <u>1,500</u> | <u>1,367</u> | <u>2,867</u> | <u>4,617</u> |
| TOTAL OPERATING REVENUES | <u>512,963</u> | <u>540,400</u> | <u>1,053,363</u> | <u>514,861</u> |
| OPERATING EXPENSES: | | | | |
| General government administration | 26,998 | 25,981 | 52,979 | 25,661 |
| Garage maintenance | 104,362 | 105,334 | 209,696 | 103,289 |
| Operations and maintenance | 263,861 | 203,838 | 467,699 | 202,751 |
| Depreciation | <u>-</u> | <u>102,806</u> | <u>102,806</u> | <u>103,767</u> |
| TOTAL OPERATING EXPENSES | <u>395,221</u> | <u>437,959</u> | <u>833,180</u> | <u>435,468</u> |
| OPERATING INCOME (LOSS) | 117,742 | 102,441 | 220,183 | 79,393 |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Gain on sale of assets | 3,121 | 50 | 3,171 | 35,745 |
| Interest income | 965 | 286 | 1,251 | 244 |
| Interest expense | <u>(72,828)</u> | <u>(14,122)</u> | <u>86,950</u> | <u>(7,753)</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>(68,742)</u> | <u>(13,786)</u> | <u>(82,528)</u> | <u>28,236</u> |
| NET INCOME (LOSS) | <u>\$ 49,000</u> | 88,655 | <u>\$ 137,655</u> | 107,629 |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>477,366</u> | | <u>369,737</u> |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ 566,021</u> | | <u>\$ 477,366</u> |

CITY OF HANCOCK
CEMETERY PERPETUAL CARE TRUST FUND
SCHEDULES OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL
Year ended June 30, 2007
With Comparative Actual Amounts for Year ended June 30, 2006

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>2006</u> |
|--|-----------------|-------------------|------------------|-------------------|
| OPERATING REVENUES: | | | | |
| Other revenue | \$ 5,067 | \$ 775 | \$ 5,842 | \$ 1,925 |
| TOTAL OPERATING REVENUES | <u>5,067</u> | <u>775</u> | <u>5,842</u> | <u>1,925</u> |
| OPERATING EXPENSES: | | | | |
| General government administration | <u>242</u> | <u>-</u> | <u>242</u> | <u>-</u> |
| TOTAL OPERATING EXPENSES | <u>242</u> | <u>-</u> | <u>242</u> | <u>-</u> |
| OPERATING INCOME (LOSS) | 4,825 | 775 | 5,600 | 1,925 |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Interest income | <u>3,500</u> | <u>4,978</u> | <u>8478</u> | <u>3,786</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>3,500</u> | <u>4,978</u> | <u>8,478</u> | <u>3,786</u> |
| NET INCOME (LOSS) | <u>\$ 8,325</u> | <u>5,753</u> | <u>\$ 14,078</u> | <u>5,711</u> |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>158,063</u> | | <u>152,352</u> |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ 163,816</u> | | <u>\$ 158,063</u> |

TRANSIT FUND SUPPLEMENTAL INFORMATION

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
For the Year Ended June 30, 2007

| | 07/01/06 through 09/30/06 | 10/01/06 through 06/30/07 | Total |
|-----------------------------------|---------------------------------|---------------------------------|-------------------|
| Farebox receipts- passenger fares | \$ 8,922 | \$ 26,493 | \$ 35,415 |
| Contract Fares | 105 | 540 | 645 |
| State Operating Assistance | 13,216 | 56,938 | 70,154 |
| Federal Section 5311 | 0 | 15,648 | 15,648 |
| Federal RTAP | 870 | 2,638 | 3,528 |
| Interest Income | 22 | 233 | 255 |
| Total Operating Revenue | <u>\$ 23,135</u> | <u>\$ 102,510</u> | <u>\$ 125,645</u> |

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
For the Year Ended June 30, 2007

| | 07/01/06 through 09/30/06 | | | | 10/01/06 through 06/30/07 | | | | Total | | | |
|-----------------------------|---------------------------|-----------------|-----------------|------------------|---------------------------|------------------|-----------------|-------------------|-------------------|------------------|------------------|-------------------|
| | Operation | Maint. | Gen. Admin. | Total | Operations | Maint. | Gen. Admin. | Total | Operations | Maint. | Gen. Admin. | Total |
| Labor: | | | | | | | | | | | | |
| Wages -operations | \$ 12,817 | \$ 0 | \$ 0 | \$ 12,817 | \$ 46,939 | \$ 0 | \$ 980 | \$ 47,939 | \$ 59,776 | \$ 0 | \$ 980 | \$ 60,756 |
| Other salaries and wages | 0 | 2,544 | 737 | 3,281 | 0 | 9,450 | 1,718 | 11,168 | 0 | 11,994 | 2,455 | 14,449 |
| Dispatchers wages | 738 | 0 | 0 | 738 | 2,697 | 0 | 0 | 2,697 | 3,435 | 0 | 0 | 3,435 |
| Fringe benefits | 2,083 | 2,958 | 661 | 5,702 | 9,057 | 7,570 | 2,175 | 18,802 | 11,140 | 10,528 | 2,836 | 24,504 |
| Services: | | | | | | | | | | | | |
| Advertising | 0 | 0 | 0 | 0 | 0 | 0 | 609 | 609 | 0 | 0 | 609 | 609 |
| Other | 8 | 153 | 196 | 357 | 1,917 | 1,348 | 414 | 3,679 | 1,925 | 1,501 | 610 | 4,036 |
| Materials and supplies: | | | | | | | | | | | | |
| Fuel and lubricants | 5,590 | 0 | 0 | 5,590 | 16,953 | 0 | 0 | 16,953 | 22,543 | 0 | 0 | 22,543 |
| Tires and tubes | 124 | 0 | 0 | 124 | 1,635 | 0 | 0 | 1,635 | 1,759 | 0 | 0 | 1,759 |
| Major supplies | 0 | 425 | 0 | 425 | 0 | 4,629 | 0 | 4,629 | 0 | 5,054 | 0 | 5,054 |
| Other | 0 | 187 | 0 | 187 | 0 | 0 | 0 | 0 | 0 | 187 | 0 | 187 |
| Utilities | 0 | 0 | 585 | 585 | 0 | 0 | 1,502 | 1,502 | 0 | 0 | 2,087 | 2,087 |
| Insurance | 2,101 | 0 | 0 | 2,101 | 295 | 0 | 0 | 295 | 2,396 | 0 | 0 | 2,396 |
| Operating lease and rentals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous expenses: | | | | | | | | | | | | |
| Travel | 0 | 0 | 936 | 936 | 0 | 0 | 0 | 0 | 0 | 0 | 936 | 936 |
| Dues & Subscriptions | 0 | 0 | 0 | 0 | 107 | 0 | 295 | 402 | 107 | 0 | 295 | 402 |
| Other | 0 | 0 | 730 | 730 | 0 | 0 | 0 | 0 | 0 | 0 | 730 | 730 |
| Depreciation | 0 | 0 | 0 | 0 | 17,639 | 0 | 0 | 17,639 | 17,639 | 0 | 0 | 17,639 |
| | <u>23,461</u> | <u>6,267</u> | <u>3,845</u> | <u>33,573</u> | <u>97,259</u> | <u>22,997</u> | <u>7,693</u> | <u>127,949</u> | <u>120,720</u> | <u>29,264</u> | <u>11,538</u> | <u>161,522</u> |
| Less: | | | | | | | | | | | | |
| Ineligible expenses- RTAP | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation | 0 | 0 | 0 | 0 | 17,639 | 0 | 0 | 17,639 | 17,639 | 0 | 0 | 17,639 |
| | <u>\$ 23,461</u> | <u>\$ 6,267</u> | <u>\$ 3,845</u> | <u>\$ 33,573</u> | <u>\$ 79,620</u> | <u>\$ 22,997</u> | <u>\$ 7,693</u> | <u>\$ 110,310</u> | <u>\$ 103,081</u> | <u>\$ 29,264</u> | <u>\$ 11,538</u> | <u>\$ 143,883</u> |

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
For the Year Ended June 30, 2007

| <u>NON URBAN AREAS</u> | <u>07/01/06 through 09/30/06</u> | <u>10/01/06 Through 06/30/07</u> | <u>Total</u> |
|-------------------------------|--|--|-------------------|
| STATE OF MICHIGAN | | | |
| Total Eligible Expenses | \$ 31,973 | \$ 159,922 | <u>\$ 191,895</u> |
| Reimbursement Rate % | 39.9234% | 39.2546% | |
| Eligible operating assistance | <u>\$ 12,765</u> | <u>\$ 62,777</u> | <u>\$ 75,541</u> |
| FEDERAL SECTION 5311 | | | |
| Total Eligible Expenses | \$ 31,973 | \$ 159,922 | <u>\$ 191,895</u> |
| Reimbursement Rate % | 12.4000% | 15.0000% | |
| Eligible operating assistance | <u>\$ 3,965</u> | <u>\$ 23,988</u> | <u>\$ 27,953</u> |

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
For the Year Ended June 30, 2007

| <u>Quarter Ending:</u> | <u>Miles</u> |
|------------------------|---------------|
| September 30, 2006 | 17,199 |
| December 31, 2006 | 18,499 |
| March 31, 2007 | 16,047 |
| June 30, 2007 | 17,092 |
| Total Miles | <u>68,837</u> |



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2007, which collectively comprise the City of Hancock's basic financial statements and have issued our report thereon dated December 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hancock's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hancock's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hancock's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hancock's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hancock's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hancock's financial statements that is more than inconsequential and will not be prevented or detected by the City of Hancock's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Hancock's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the city's Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

December 12, 2007



Bruce A Rukkila, CPA, PC



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

Compliance

We have audited the compliance of the City of Hancock with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Hancock's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hancock's management. Our responsibility is to express an opinion on the City of Hancock's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hancock's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hancock's compliance with those requirements.

In our opinion, the City of Hancock complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 1 and 2.

Internal Control Over Compliance

The management of the City of Hancock is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hancock's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hancock's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential and will not be prevented or detected by the City of Hancock's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Hancock's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2007, and have issued our report thereon dated December 12, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Hancock's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the city's board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

December 12, 2007

Certified Public Accountants

CITY OF HANCOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

| <u>Federal Grantor/Pass-through Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Federal Expenditures</u> |
|---|-------------------------------|--|
| Department of Homeland Security Commercial Equipment Direct Assistance Program | 97.008 | \$ 3,000 |
| Michigan State Housing Development Authority Rental Rehabilitation Grant | 14.228 | 355,812 |
| U.S. Department of Housing and Urban Development-State Programs Pass-through programs from: State of Michigan - Grant Project - MSC - 201057 Section 5311 | 147.228 | 124,264 |
| U.S. Department of Transportation - Federal Transit Administration Pass-through programs from: State of Michigan, Michigan Department of Transportation Section 5311 | 20.509 | 24,016 |
| RTAP | 20.509 | <u>870</u> |
| Total expenditures of federal awards | | <u>\$ 507,962</u> |

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unqualified |
| Internal Control over financial reporting: | |
| • Material weakness(es) identified? | No |
| • Reportable condition(s) identified that are not considered to be material weaknesses? | None Reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|--------------------|
| Internal control over major programs: | |
| • Material weakness(es) identified? | No |
| • Reportable condition(s) identified that are not considered to be material weaknesses? | None Reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133? | No |
| Identification of major programs: | |
| Name of Federal Program | <u>CFDA Number</u> |
| Michigan State Housing Development Authority Rental Rehabilitation Grant | 14.228 |
| Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | Yes |

SECTION II - FINANCIAL STATEMENT FINDINGS - No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS.

Finding #1 Comment - City of Hancock officials/personnel or NCI, third party administrators did not attend any MSHDA required Rental Rehabilitation or Grant related training. The training requirements are designed to keep grantees informed about changes in federal/state guidelines and best practices.

Recommendation - It is expected that City of Hancock officials/personnel or NCI, third party administrators attend the next available Rental Rehabilitation training offered by MSHDA in the spring of 2008 in Gaylord, Michigan. The training calendar is available on the following web site, www.mittac.org.

Response - NCI, third party administrators will attend the class being offered in the spring of 2008 in Gaylord, Michigan, if no classes are offered prior to that at a closer location.

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

For the year ended June 30, 2007

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding #2 Comment - The City of Hancock held project advancements for over and beyond the time allotted by U.S. Department of Housing and Urban Development (HUD) and MSHDA guidelines. Grantees may request a disbursement equivalent to 60 days working capital for projects and/or administrative costs. If funds are held longer than 60 days, it will result in a monitoring finding (Policy Bulletin #2).

Recommendation - The City of Hancock will expend all remaining project advances within 20 days of this monitoring letter and submit an explanation letter describing why funds were held over and beyond this required time line. Additionally, submit to MSHDA a grant expenditure spreadsheet of accounts and acknowledgment of understanding, Policy Bulletin 2.

Response - A letter will be written explaining why funds were held over. A grant expenditure spreadsheet of accounts and acknowledgment of understanding Policy Bulletin 2 has already been submitted to MSHDA

CITY OF HANCOCK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007

NOTE A - OVERSIGHT AGENCY

The U. S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the City's expenditures of federal awards.

NOTE B - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION

A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized on page 93 of these financial statements is \$637,890.

Federal Awards are reported in the financial statements as follows:

| | |
|--|-----------------------|
| General Fund: | |
| Commercial Equipment Direct Assistance Program | \$ 3,000 |
| CDBG Fund: | |
| Rental Rehabilitation Grant | 355,812 |
| Major Street Fund: | |
| Section 5311 | 124,264 |
| Transit Fund: | |
| Section 5311 | 24,016 |
| RTAP | 870 |
| Total Transit | <u>24,886</u> |
| TOTAL | <u>\$ 507,962</u> |



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COMMENTS AND RECOMMENDATIONS LETTER

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

In connection with our audit of the financial statements of the City of Hancock, for the year ended June 30, 2007 the following concerns regarding the accounting records, procedures, and internal accounting control structure came to our attention and are presented for your consideration.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures.

Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the financial statements and the accompanying information.

Public Act 275 of 1980

The City had a fund balance deficit as of June 30, 2007 in the Major Street Fund, Local Street Fund, and the Transit Fund in the amount of \$62,475, \$68,755, and \$5,317 respectively.

We recommend that the Council monitor the fund balances of all funds more closely and take steps to avoid such deficits as necessary. In accordance with Public Act 275 of 1980, the City must formulate and file a deficit elimination plan (DEP) with the State Treasurer to correct the deficit situation. This DEP must contain: (1) a copy of current trial balances showing the deficit eliminated; (2) copies of Council resolutions approving operating transfers used to eliminate the deficit; and (3) a projected budget, approved by the Council, itemizing the revenues, expenditures and the changes in the fund balance.

Statement on Auditing Standards (SAS) No. 112

Those charged with governance is defined as, "the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity." This includes overseeing the financial reporting and disclosure process. In smaller entities, such as the City of Hancock, those charged with governance may be the same people.

SAS No. 112 states that those charged with governance need to have the necessary accounting expertise and competence with respect to financial statement preparation. They must be able to prevent, detect, and correct a potential misstatement in the financial statements. In order to eliminate control deficiencies, significant deficiencies, or material weaknesses, the district should review their internal control, segregation of duties, and management's ability to prepare financial statements.

Segregation of Duties

General principles of internal control call for segregation of the functions of recording transactions, authorization of transactions and custody of assets.

We advise that someone independent of the cash receipts and depositing duties, trace the written receipts to the bank deposit and bank statement and also prepare the monthly bank reconciliations. At the minimum, a city manager would review all bank statements on a monthly basis.

Transaction Procedures

In the process of reviewing and testing internal controls it was noted that the flow of documentation in various areas is complex and it is time consuming to follow a transaction through the system from beginning to end. It also appeared as though the flow of documentation is only known by the clerk. With a complex system and limited knowledge of the flow of documentation by employees, the City of Hancock is susceptible to errors and fraud.

We recommend that the City of Hancock analyze the flow of documentation in order to simplify procedures and possibly relieve staff of unnecessary steps.

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

It has been a pleasure to provide audit services to the City of Hancock. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

December 12, 2007